

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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Senate drops plans to expand reversions, raise Medicare age

WASHINGTON—Employers last week won a big victory on the Senate floor but suffered one defeat.

The victory the Senate agreed to a point of order by Sen. Edward Kennedy, D-Mass., to knock out a provision in tax legislation that would have gradually raised the eligibility age for Medicare benefits to 67 from 65. That change would have shifted to employer plans billions of dollars in health care costs now paid by Medicare.

The defeat involved a Senate vote in favor
See Updates on next page

Major employer sweetens 401(k), freezes old plan

By SALLY ROBERTS

DALLAS—Disenchanted with employee ambivalence, high legal and accounting charges, and frequent need for plan amendments, Dresser Industries Inc. is freezing its defined benefit pension plan and sweetening its 401(k) plan.

The Dallas-based energy corporation said it has no immediate plans to terminate its defined benefit plan. If it did, the plan would be among the largest to be terminated and replaced with a defined contribution plan.

Dresser, with 1994 revenues of \$5.33 billion, has roughly 20,000 participants in its defined benefit pension plan, which was frozen June 1, said the company's Vp-Human Resources Paul M. Bryant.

Only two larger plans ever have been terminated and replaced with defined contribution plans, according to the federal Pension Benefit Guaranty Corp. (see chart).

Benefit consultants say Dresser's move away from its older plan is unusual in that large companies that set up defined contribution plans often maintain their defined benefit plans.

Dresser, though, had wanted to drop its defined benefit plan for years.

But each time the company thought about it, two problems arose: The company would end up spending more, and employees would end up getting less, Mr. Bryant said.

At the same time, "we had changed and amended the (defined benefit) plan multiple times, and employees could never do their own calculations," he said. "There was an element of confusion, and employees didn't appreciate it."

Mr. Bryant also said the company viewed large accounting fees, legal fees and PBGC premiums as retirement money not being spent on employees.

In addition, new employees "could care less" about defined benefit plans since most have been exposed to defined contribution plans, he added. In fact, Dresser itself in 1986 set up a 401(k) plan, which then did not include a company match and offered only three in-

See Dresser on page 4

Insurers soften on Superfund

House testimony is first hint of flexibility on retroactive liability

By MARK A. HOFMANN

WASHINGTON—Insurers might settle for less-than-complete repeal of retroactive liability under Superfund reform, but only if Congress does not allocate the funding necessary to finance a full repeal.

That's the message that George Baker, executive director of advocacy group Superfund Reform '95, delivered last week to the House Commerce Committee's Subcommittee on Commerce, Trade and Hazardous Materials during testimony on the Superfund liability system.

Mr. Baker's testimony marks only a small shift in insurers' position. However, it does represent the first softening of the industry's push for full repeal of retroactive liability for hazardous waste dumping that was legal at the time it was done. It may also have been designed to show members of Congress and other industry groups that insurers are not completely inflexible on this issue.

The subcommittee's chairman—Rep. Michael Oxley, R-Ohio—recently introduced H.R. 2500, the Reform of Superfund Act of 1995. Commonly called ROSA, that bill stopped

far short of elimination of retroactive liability for pre-1987 dumping, which is the position that Rep. Oxley had argued for in the past (BI, Oct. 16).

"Although our efforts to assure adequate funding for a full repeal have proven unsuccessful to date"—and here Rep. Oxley stopped to stress "to date"—"(the bill includes)...an enormous incentive for parties to conduct cleanups rather than litigate," the lawmaker said at the hearing last week.

That incentive would be a 50% rebate of the costs associated with the cleanup.

Questioning by the panel grew contentious last week as Republicans pressed the chief Clinton administration witness, Carol M. Browner, administrator of the Environmental Protection Agency. More than once they tried to get Ms.

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S&P reviews pollution exposures of leading insurers Page 28

Blues to pay \$115 million settlement

Deal covers Medicare bills

By JERRY GEISEL

WASHINGTON—Blue Cross & Blue Shield plans will pay the federal government \$115 million as part of a settlement over disputed health care claims, chiefly those of older workers and their dependents that group health plans—not Medicare—should have paid.

The settlement involves 65 out of the nation's 67 BC/BS plans. Blue Cross & Blue Shield of Michigan is not participating in the agreement because it earlier agreed to pay the government \$23 million to settle charges that it did not pay older workers' health care claims under health plans it sold to employers (BI, Jan. 23).

Blue Cross & Blue Shield of Massachusetts—the other Blues plan that did not participate in the settlement—expects to negotiate a separate settlement with the government within the next few months, a spokeswoman said.

The \$115 million settlement involves group health care plans that Blues plans either insured or served as a third-party claims administrator.

The settlement is not expected to affect rates, said a spokesman for the Blue Cross & Blue Shield Assn. in Chicago.

The settlement involves health care claims going back to the early 1980s—when Congress enacted a series of measures making group health care plans—not Medicare—the primary payer of medical claims for workers who stayed on the job after 65.

The enactment of those measures—intended to shift billions of dollars in medical bills to group health care plans from Medicare—re-

See Blues on page 4

Medicare legislation could jolt employers

By JERRY GEISEL

WASHINGTON—Legislation passed this month by the House and poised for Senate approval would be nothing less than an earthquake for Medicare, its 37 million beneficiaries and the thousands of providers that participate in the 30-year-old program.

And, the tremors would jolt employers as well.

The legislation would ensure that retirees have a vast new array of opportunities from which they could choose to receive and pay for services, including more health maintenance organizations, physician- and other provider-established managed care networks and tax-favored medical savings accounts.

"The Medicare program is being opened up to innovative ways of providing care," said John Sheils, a vp with health care research firm Lewin-VHI Inc. in Fairfax, Va.

Of course, retirees also would lose a great deal. The legislation would substantially increase the premiums they pay for Medicare; it could raise deductibles by 50%; and its lower reimbursement limits would discourage many doctors from seeing Medicare patients and force some hospitals to close.

By overhauling the complex system in which HMOs are paid for covering the elderly, the legislation could encourage more HMOs to offer Medicare coverage and enriched benefits to retirees.

Hospitals and physicians, though, face unprecedented cuts—roughly \$140 billion to \$150 billion over the next seven years—in projected

Medicare payments. The days in which providers could count on annual double-digit increases in Medicare payments will end.

While benefit experts still are sorting out the details, they expect broad ramifications from the legislation, the biggest overhaul of Medicare since the program was created in 1965 to provide a safety net for the elderly.

The overhaul would also have a substantial impact on employers. Some changes would be direct and would immediately shift significant costs to employer plans. Increasing the eligibility age to 67 from 65, as the House bill proposed, could cost employers billions of dollars. The Senate last week rejected a similar provision (see related Update).

On a much smaller scale, the final Medicare overhaul bill

See Medicare on page 18

The overhaul is expected to be the biggest since the safety net was created in 1965.

DRESSER INDUSTRIES

DRESSER

If Dresser Industries Inc.'s plan ultimately is replaced with a 401(k) plan, it would be among the largest defined benefit plans ever terminated and replaced with a defined contribution plan.

	Termination date	Number of participants
Merrill Lynch & Co. Inc.	1988	37,859
Melville Corp.	1989	26,997
Dresser Industries Inc.		20,000
Baker Hughes Inc.	1986	12,457
Lucky Stores Inc.	1988	11,392
Oxford Industries Inc.	1988	9,506

Source: Pension Benefit Guaranty Corp.

GRAPHIC BY MIKE GARVEY

Updates

Senate strips benefit measures

Continued from previous page

of an amendment to strip a provision from the tax legislation that would have allowed employers to withdraw surplus assets from overfunded pension plans.

The amendment, offered by Sens. Kennedy and Nancy Kassebaum, R-Kan., was approved in a 94-5 vote.

"This is an unconscionable attack on workers' pensions and ought to be rejected by Congress," Sen. Kennedy said.

But, James Klein, president of the Assn. of Private Pension & Welfare Plans, called the vote a "bad day for the pension community."

As proposed, the reversion provision in the Senate bill would have allowed employers to withdraw assets from overfunded plans to pay for other employee benefit programs. After the reversion, the plan would have to be at least 125% funded.

However, the reversion issue remains unsettled. Tax legislation passed by the House last week included a provision that would allow employers to withdraw surplus assets for any reason, as long as the plan remained at least 125% funded.

The Clinton administration, which lobbied to knock out the reversion provision from the Senate bill, says it will continue those efforts when differences in the bills are ironed out by a conference committee.

The two measures also contain numerous other employee benefit provisions to simplify pension plan administration as well as overhaul the federal Medicare program.

Shareholder suit bill revised

WASHINGTON—Congress is expected to soon adopt a compromise bill that would sharply limit shareholder lawsuits against corporations and firms of professionals like accountants and stockbrokers.

The modified bill, unveiled last week, would reconcile House and Senate versions of the legislation and would:

- Create a "safe harbor" for erroneous earnings and other predictions by corporations as long as they were accompanied by cautionary statements that they could be wrong. Plaintiffs would have to show that company officials knew predictions were false or misleading.

- Eliminate joint and several liability of professionals named as "secondary" defendants, except when they knowingly engage in fraud. Judges instead would determine defendants' proportionate share of liability and could increase the share of liability of secondary defendants if primary defendants are insolvent.

- Require judges to sanction lawyers for frivolous filings.

The compromise bill dropped a provision in the House bill that would have required losing plaintiffs to pay defendants' court costs.

While opponents argue the bill goes too far in protecting negligent and even criminal behavior, supporters maintain it is necessary to curb abusive litigation.

U.K. reinsurance ruling appeal

LONDON—London market reinsurers plan to appeal to England's highest court a decision last week by the U.K. Court of Appeal that insolvent British insurers do not have to pay losses before recovering from reinsurers.

The Oct. 25 majority decision upholds a High Court decision in the case, *Charter Reinsurance Co. vs. Feltrim Fagan* (BI, July 3). Two of the three judges on the U.K. Court of Appeal panel ruled that the "ultimate net loss" clause in reinsurance contracts does not require insurers to actually make payments, once they have agreed to pay a claim, before recovering from reinsurers.

Anthony Fitzsimmons, a partner in London law firm Ince & Co., which represents Feltrim, said an appeal to the House of Lords will be made soon.

The strength of the one dissenting opinion could well help the case in the House of Lords, said Richard Spiller, a partner at London law firm DJ Freeman.

Philip Singer, liquidator of Charter Re, said he was "delighted" by the result. More than £2 billion (\$3.18 billion) in claims has been held up while the case was being decided, he noted.

A number of suits, including *Trinity Insurance Co. Ltd. vs. NRG Victory Reinsurance Co. Ltd.*, have been put on hold until a definitive ruling is made in the Charter Re case.

State Farm cat credit facility

BLOOMINGTON, Ill.—J.P. Morgan Securities Inc. is working to line up a \$3 billion catastrophe liquidity facility for State Farm Mutual Automobile Insurance Co.

The five-year revolving credit facility would let State Farm cover cat losses without immediately liquidating stock and bond investments.

The insurer might prefer to tap the facility, for example, if weak stock or bond markets made asset sales unattractive, said a spokesman for the Bloomington, Ill.-based insurer. "This is basically just to give us flexibility in meeting short-range cash needs in the event of a mega-catastrophe or a series of large catastrophes," he explained.

Morgan Securities, a unit of J.P. Morgan & Co. Inc., is putting together a syndicate of lenders for the facility, which is expected to be in place by the end of the year, the spokesman said.

State Farm, the nation's largest property/casualty insurer, paid \$2.4 billion in losses from the Northridge earthquake and \$3.7 billion in losses from Hurricane Andrew. It does not purchase reinsurance.

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Errors & omissions

- The Fourth Annual Business Insurance Workers Compensation conference will be held Nov. 4-6, 1996, in Santa Monica, Calif. The date was misstated in the Oct. 23 issue.

Insurers say they are stifled by overregulation, NAII finds

By RODD ZOLKOS

CHICAGO—Excessive regulation is significantly restricting insurers' decisions to enter markets or offer new products, according to a study by the National Assn. of Independent Insurers.

"Our companies have actually changed their behavior because of overregulation," said NAII President-elect Jack Ramirez, who discussed the survey of NAII members and the phenomenon of "regulatory creep" at the group's annual meeting in Chicago last week.

Sixty-two percent of the insurers surveyed have de-



decided not to enter a market because of regulatory concerns, according to the study. Eighty percent said state insurance laws or regulations have impeded the design, development or introduction of a product.

About 40% of the surveyed insurers have con-

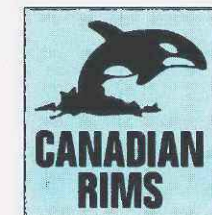
See Regulate on page 29

RIMS to ease dues increase for Canadians

By GAVIN SOUTER

VANCOUVER, Canada—Canadian members of the Risk & Insurance Management Society will have to pay the equivalent of the same \$300 annual dues that members in the United States pay starting Jan. 1, 1998.

The increase from the current \$300 Canadian (\$225) fee will be gradually implemented beginning next year, and is part of a package of changes that is intended to bring increased service to Canadian members in return for the hike in membership fees.



The changes are a step down from RIMS' earlier proposal to fully increase dues to the equivalent of \$300 as of January 1996 (BI, Feb. 27). At current exchange rates, that would equal \$400 Canadian, or a 33% increase over current Canadian dues.

Meanwhile, plans to abolish the Canadian co-ordinator position within RIMS will proceed as

Coverage of the Canadian RIMS conference continues Page 23

planned, though in its place the society will establish a new position of Canadian director of legislative, risk management and public affairs.

The changes were announced at the annual Canadian Risk Management Conference held in Vancouver last week.

The gradual increase in Canadian members' fees will begin in 1996, when Canadian members of RIMS will have to pay \$300 Canadian, plus one third of the difference between that amount and the

See Dues on page 26

Self-funded LTC plan Hewlett-Packard expects lower costs

By JOANNE WOJCIK

PALO ALTO, Calif.—While many employers now offer their employees an opportunity to buy long-term care insurance on a group basis, Hewlett-Packard Co. is among the first to launch a fully self-funded LTC program.

The Northern California high-tech firm is offering the plan to its 65,000 U.S. employees and retirees, as well as to their spouses, parents and grandparents.

Plan participants pay 100% of the cost of this coverage for long-term care at home; day care in community and residential facilities; and nursing home care.

Three levels of coverage are available at age-based premiums: for example, a 30-year-old would pay \$17 monthly for a \$100,000 policy to cover only his or her needs; \$20 monthly for a \$250,000 policy; or \$24 monthly for unlimited lifetime benefits. A 50 year-old would pay \$30 monthly for \$100,000 in coverage; \$43 monthly for \$250,000; and \$63 monthly for unlimited benefits.

Every additional non-employee family member covered by the program is underwritten separately.

If an employee leaves the company and wishes to continue coverage, the policy will be converted into an individual Duncanson & Holt policy.

Premiums will be paid either through payroll deduction, check-

See LTC on page 31

Family leave law burden not as severe as feared Little impact on cost, productivity: Study

By JERRY GEISEL

A majority of employers agree that the federal law requiring them to extend job-protected medical and family leave to employees is not boosting their administrative costs or interfering with productivity.

More than 85% of employers say the Family and Medical Leave has had little effect on their administrative costs or productivity.

At the same time, while the FMLA gives employees the right to take up to 12 weeks of job-protected unpaid leave because of certain family situations or their own medical problems, only about 3.5% of employees have done so.

These are the findings of two studies that were released this month by the Family and Medical Leave Commission, a federal body that was established as part of the

FMLA to conduct a comprehensive study to measure the impact on employers of the FMLA.

The commission contracted with Westat Inc., a Rockville, Md.-based research firm, to study the impact of the FMLA on employers and contracted with the University of Michigan's Survey Research Center to examine the impact of the FMLA on employees. The Westat survey involved 1,206 employers, while 2,254 employees responded to the University of Michigan survey.

The FMLA, which took effect Aug. 5, 1993, requires employers with 50 or more employees to provide workers up to 12 weeks of unpaid leave because of: their own serious health condition; the serious illness of a child, parent or spouse; or the birth or adoption of a child. During leave, employers

See Leave on page 14

Inside

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Different reporting rules make comparisons moot

Varying international standards inhibit financial scrutiny of some insurance companies, panelists contend

By DOUGLAS McLEOD

NEW YORK—Anyone trying to gauge the financial strength of international insurers faces a daunting hodgepodge of foreign

The wide variety of financial reporting standards in different parts of the world makes it very difficult to compare the performance of overseas insurance companies to that of U.S. insur-

so uneven that it's almost impossible to get comfortable with published data," said James E. Gustafson, chairman and chief executive officer of General Reinsurance Corp. in Stamford, Conn.

By contrast, U.S. insurance companies are subject to such extensive financial disclosure requirements that they may find themselves at a competitive disadvantage with their foreign counterparts, said Mr. Gustafson, who was part of a panel discussion during the 20th Annual Research Seminar sponsored by the Insurance Information Institute and the Reinsurance Assn. of America.

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U.S. insurers are subject to such extensive disclosure requirements that they may find themselves at a competitive disadvantage, says James Gustafson.

accounting, regulatory and disclosure requirements, a panel of experts says.

ers, they contend.

"There are still some countries where reporting is so poor and

Rocket explosion not covered

Insurance coverage too costly for rocket's private owner, which will retain \$75 million loss

WALLOPS ISLAND, Va.—There is no insurance coverage for the loss of a \$75 million rocket that exploded early last week shortly after take-off from the National Aeronautics and Space Administration's facility on the Virginia coast.

EER Systems Inc. of Seabrook, Md., which owned the launch pad and launch vehicle, does not purchase insurance coverage for its rockets because it is too expensive, instead retaining all losses, according to a spokesman for the company.

The Conestoga rocket was carrying eight NASA experiments with a combined value of around \$14 million, which also were uninsured, a NASA spokesman said.

Additionally, the rocket was carrying six commercial experiments, though their owners were not disclosed.

The rocket changed its trajectory about 35 seconds after the launch. A few seconds later, the rocket's automatic destruct mechanism was triggered as the rocket veered further from its intended course, the EER spokesman said.

The reason for the change in direction has not yet been determined, he said.

The rocket was the first commercially built rocket to be launched from the NASA facility. No other commercial launches have yet been planned for the Virginia facility, the NASA spokesman said.

—By Gavin Souter



An uninsured \$75 million rocket, which was carrying both NASA and commercial experiments, was automatically destroyed as it began to veer off course after last week's launch from a Virginia launching facility.

Capital market to increase

Alternatives to play larger insurance role

By DOUGLAS McLEOD

NEW YORK—Capital markets have already become sources of reinsurance capacity and could also supplement direct insurance bought by corporate policyholders in the future, a panel of experts says.

A number of capital market alternatives to traditional reinsurance have already emerged, including a \$400 million surplus note deal Nationwide Mutual Insurance Co. completed with Morgan Guaranty Trust Co. earlier this year and the developing catastrophe futures market at the Chicago Board of Trade (BI, Oct. 23).

Other financial experts are also looking at various ways of transferring insurance risks by means of securities.

Eventually, products could be sold not only to institutional inves-

tors but also to individual investors through stock brokerage retail offices, said A. Michael Frinquelli, managing director and first vp with Merrill Lynch & Co. Inc.

"This may prove a long and

'Products could be sold to individual investors as well as institutional investors,' says A. Michael Frinquelli.

rocky courtship, but someone is going to end up at the altar eventually," Mr. Frinquelli said of the marriage of insurance and investment industries.

Emilio M. Fernando, a vp with See Capital on page 22

Multiemployer plans well-funded, says pension study

By JERRY GEISEL

Multiemployer pension plans are maintaining high levels of funding.

On average, multiemployer plans surveyed by The Segal Co. were 95% funded for vested benefits in 1993 and 1994, virtually unchanged from 1992-1993 when the plans, on average, were 96% funded.

Only six of the 475 plans surveyed by Segal, a New York-based benefit consultant, were less than 50% funded, while 308 plans—65% of respondents—were at least 100% funded.

Seventeen percent of plans were between 90% and 99% funded.

There is other evidence of how well-funded most multiemployer plans are.

Nationally, multiemployer plans have about \$194 billion in assets and \$200 billion in liabilities, for a funding level of 97%, according to the Pension Benefit Guaranty Corp. Half of all plan participants are covered by fully funded plans, up from about a third in 1980.

The funding levels of multiemployer plans have been important to employers participating in the plans ever since Congress passed the Multiemployer Pension Plan Amendments Act of 1980.

Under that law, an employer that withdraws from an underfunded plan is liable for a share of the plan's promised but unfunded benefits.

However, if a plan is well funded, a withdrawing employer will not be hit with a withdrawal liability claim.

Indeed, employers' fear of being hit with such a claim has been a factor in the gradual improvement in the funding levels of the plans, said Segal Chairman Martin Krinsky. As plan funding has improved,

See Funding on page 28

State agency backing Minnesota employer coalition

MINNEAPOLIS—A coalition of 23 large employers in Minnesota, which plans to improve the price and quality of health care through direct contracting with providers, is getting some heavy-duty support—a diverse group of 160,000 state workers and their dependents.

In an unusual alliance between corporations and the state Department of Employee Relations, the state recently agreed to support the Business Health Care Action Group's goal of using collective action to increase the health care system's effi-

ciency and competitiveness. Because the state, not just businesses, will be more involved in BHCAG activities, the group changed its name to Buyers' Health Care Action Group.

The Department of Employee Relations became an associate member of the coalition last summer, meaning that the department has endorsed the action group's mission and agrees to work to establish a more rational market of "care systems" by which providers' quality can be judged, said Steve Wetzell, BHCAG executive director.

At present, the action group's corporate members are using a single health plan through HealthPartners Inc., a large managed care organization in the Twin Cities. In January 1997, however, the contract with HealthPartners will expire, and the coalition hopes to enable its members to shop among care systems that are expected to be started by local hospitals, physicians and clinics. The aim is to use the group's considerable buying power to compel the health care market to compete based on quality, cost and service, and to

give consumers the information they need to make smart decisions on health care.

It is too early to say if the 65,000 state workers and college and university employees actually will become full-fledged participants in BHCAG, said Kathleen P. Burek, director of the employee insurance division of the Minnesota Department of Employee Relations. The state is locked into labor contracts until June 1997, so abandoning current health plans is not possible.

But, state officials believe that

aligning themselves with the group is an important statement that the local market, now dominated by four health plans, needs to be reformed. "We're sending a very strong signal to the marketplace," Ms. Burek said.

State authorities are now working to develop credentialing standards with the group, she said. Common standards will buttress the coalition's clout and alter the managed care environment, even if state employees don't formally sign on as full members of the BHCAG, she said.

—By Robert N. Kazel

Dresser

Continued from page 1

With the help of Alexander & Alexander Consulting Group Inc. Dresser froze its old plan and revamped its savings plan, moves the company thinks will play well with employees and cut its costs.

"We're freezing the defined benefit plan at the moment," Mr. Bryant said. This means employees will not accrue additional benefits for future service and the plan will be closed to new employees.

One of Dresser's major concerns with freezing the plan was that employees who had been with the company for many years would lose further accrued benefits under the defined benefit plan and would not accrue enough benefits even under the sweetened 401(k) plan to make up the difference.

Under the 401(k) plan, Dresser is making an initial contribution of 3% of pay to every employee. Dresser then will fully match employee deferrals up to 2% of pay and 50% on the next 4% of employees' deferrals, Mr. Bryant explained. Participants have six investment options.

To compensate employees who have been with the company for years, Dresser has added an "equalizer" benefit above its contributions ranging from 0.1% to 20% of pay.

Percentages are based on any shortfall arising after calculating what each employee would have received upon retirement under the defined benefit plan and what they would receive under the new plan.

While employers in recent years have been moving away from defined benefit plans and into defined contribution plans, larger employers generally have main-

tained both types of plans.

"It's pretty rare for an employer to abandon a defined benefit plan and go with a savings or 401(k)-type vehicle," said Dennis Coleman, a principal with Kwasha Lipton L.L.C. in Fort Lee, N.J.

In a move similar to Dresser's, though, Kmart Corp. plans to freeze its defined benefit pension plan in January 1996 and replace it with a profit-sharing plan. (BI, April 17). The Troy, Mich.-based retail giant's defined benefit plan has about 270,000 participants. A spokesman said earlier this year that the company has not decided whether it eventually will terminate the defined benefit plan. Kmart does have a 401(k) savings plan.

"I would estimate 90% of companies with more than 10,000 employees maintain both defined benefit and a 401(k)-type plan," said Mr. Coleman. "In doing so they

provide more benefits than with just one plan."

"It's a bold step for an organization of that size," agreed Michael Kivi, a managing consultant with A. Foster Higgins & Co. Inc. in Washington. However, "it's consistent with what is going on in the workplace today," he said, referring to the trend of moving out of the defined benefit arena.

While the number of defined benefit plans has decreased over the past 10 to 15 years, the number of people covered has actually increased about 2%, said a PBGC spokeswoman. "That's because larger employers tend to stay in the system."

Many large companies, however, believe that employees should make long-term commitments to the company. In those cases, defined benefit plans still work, Mr. Kivi said.

While neither Mr. Coleman nor

Mr. Kivi said they currently have large clients looking to replace their defined benefit plans with defined contribution plans, Fred Munzenmaier, managing director of A&A Consulting Group's retirement strategies practices in Atlanta, has a different story.

"It's unusual. However, lots of my larger clients are discussing it. They are just looking for the right time to do it," he said.

For Dresser, the time is right.

While on a cash basis, the new 401(k) plan costs Dresser more than the previous pension plan, "we knew our younger employees would love it," Mr. Bryant said. "We were concerned about the more senior employees who have worked here 20 years. However, they too are very, very pleased with the plan. It's the first time they know exactly how much money they have," he said.

In addition to quarterly reports, a voice response system was set up so employees can call and check their account balances at any time, he said.

Initially, the company thought it would be contributing an average of 5.9% of pay. But the program has proved so popular that the contributions now average 6.7%.

Part of the plan's success can be attributed to the communication effort that began last January.

Employees were bombarded with information, Mr. Bryant said. "This was such a new thing and it was my fear that employees were going to look at this and say, 'What are they doing to us now?'"

However, employee focus groups conducted at the beginning of the year enabled Dresser to anticipate questions and problems that might arise, he said. The biggest potential problem: concern by veteran workers that they would lose out. The company also sent out four mailings explaining the new plan and held employee meetings to answer questions. **BI**

Blues

Continued from page 1

sulted in mass confusion. Providers in many cases sent bills to both Medicare and employers. In other cases, providers sent bills directly to Medicare that should have gone to employers.

The settlement is the largest involving an insurance organization in the 12-year history of the so-called Medicare Secondary Payer program.

As part of the agreement, the Blues will also help the Health Care Financing Administration, the federal agency that administers Medicare, to identify health care providers who have been paid twice for the same claim by a Blues plan and by Medicare.

In addition, a new data exchange program will be created between Blues plans and HCFA to reduce the likelihood that Medicare in the future will pay claims that are the responsibility of Blues plans.

Blues and HCFA officials say the timely exchange of data could save Medicare about \$100 million annually by identifying bills that should be paid by employer plans.

"The settlement is a striking example of how the government is focusing on a pragmatic and flexible way to resolve past claims in exchange for future information," said Bob Roth, a partner with the Washington law firm of Michaels, Wishner & Bonner and a former HCFA attorney.

Paula Marshall, Chairman, CEO
Bama Foods, Ltd.

SHE BAKED 3 MILLION BISCUITS YESTERDAY. AND WE HELPED.

At Bama Foods, making three million biscuits from scratch for the world's most famous fast-food restaurants is all in a day's work. And from the raw ingredients to specially built ovens to frozen delivery, the biscuits—and the rest of Bama—are insured by Chubb. Coverage for product liability, equipment and transit is only part of the policy Chubb created for Bama. As a leading business insurer, Chubb has more than 112 years of experience—along with the highest ratings for financial strength—to help protect what the world's businesses, big and small, can cook up. What can Chubb do for your business? Ask your independent agent or broker, or call 1-800-36 CHUBB.

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Road construction.

Broken glass.

Detours.

Perishable loads.

Glare ice.

Low bridges.

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Guidebook helps cut health care costs

NEW HOLLAND, Pa.—Patients, healthy themselves, a Pennsylvania manufacturer has suggested to a group of its workers.

And, with the aid of a self-help health care guidebook, they have.

Using the guidebook, employees at Berk-Tek Inc., a manufacturer of communication wire, cut their outpatient costs in one year by 24.3%, or about \$14,500, according to a study by Capital Blue Cross of Harrisburg, Pa., the employer's indemnity plan provider.

Benefit Beat

"Generally, the 'HealthyLife' program worked really well for the employees," said Daria Teter, human resources manager for New Holland, Pa.-based Berk-Tek.

The guidebook, "HealthyLife Self-Care Guide," lists the symptoms of 27 health conditions, from acne to chest pain to sports injuries to vomiting, and instructs readers when and

how those ailments can be treated at home. It also instructs readers when to seek emergency care or contact a physician.

The \$1.99 booklet is published by the American Institute for Preventive Medicine, a Farmington Hills, Mich.-based developer of self-care publications and wellness programs.

Capital Blue Cross distributed the guidebook without charge to the 328 Berk-Tek employees, out of a total workforce of 371, who agreed to participate in the study.

The Blues plan also conducted a 50-minute seminar to familiarize Berk-Tek employees with how to use the booklet as well as how lifestyle affects health and how they can evaluate and choose doctors.

Berk-Tek did not make any other changes in its health care plan during the study period, June 1994 through May 1995, or the year before.

For the year that Berk-Tek employees used the guidebook, outpatient health care costs fell by \$39.06

per worker on average for the entire 371-employee group. The study did not assess how much those costs dropped for only the 328 employees who used the guidebook.

The number of emergency room visits by employees fell 19.8%, and the number of doctor's office visits dropped 18.4%, according to the study.

For employees and their dependents as a group, outpatient costs dropped 17.8%, or \$21.67 per individual, according to the study. Emergency room and doctor office visits for that group dropped 11%.

Shelley Farnell, a health education consultant for Capital Blue Cross, said the findings were surprising.

"We don't wholly attribute this to the program, though we largely attribute it to the program," she said.

Some of the cost reduction also may have been attributable to the nation's heightened awareness of health care during the summer of 1994 as Congress and the White House sparred over the best approach to reform the health care system, Ms. Farnell said.

Capital Blue Cross will re-evaluate the program's success at Berk-Tek in November.

—By Dave Lenckus

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Network satisfaction

NEW YORK—Employees place a high value on the opinions of their peers and will use that information to select health care networks, American Express Co. found in a study of its workforce.

"Employees view recommendations from co-workers as more believable than advertising from the health care networks," said LouAnn Cash, vp-benefits planning for the New York-based financial services company.

According to the company's research, workers also are less concerned about "how managed care networks select providers or monitor provider practice patterns," she said.

The findings stemmed from an aggressive strategy that American Express took in 1993 to provide employees with as much performance-based information as possible to help them choose a health care network. As part of the annual open-enrollment process, each employee is encouraged to consider the overall employee satisfaction scores for the HMOs available in his or her area, Ms. Cash explained.

"The entire initiative stemmed directly from employees who told us point-blank in focus group interviews that recommendations from their colleagues were most important," she said.

Afterward, American Express analyzed enrollment figures for HMOs and other health plans to follow migration patterns between plan years.

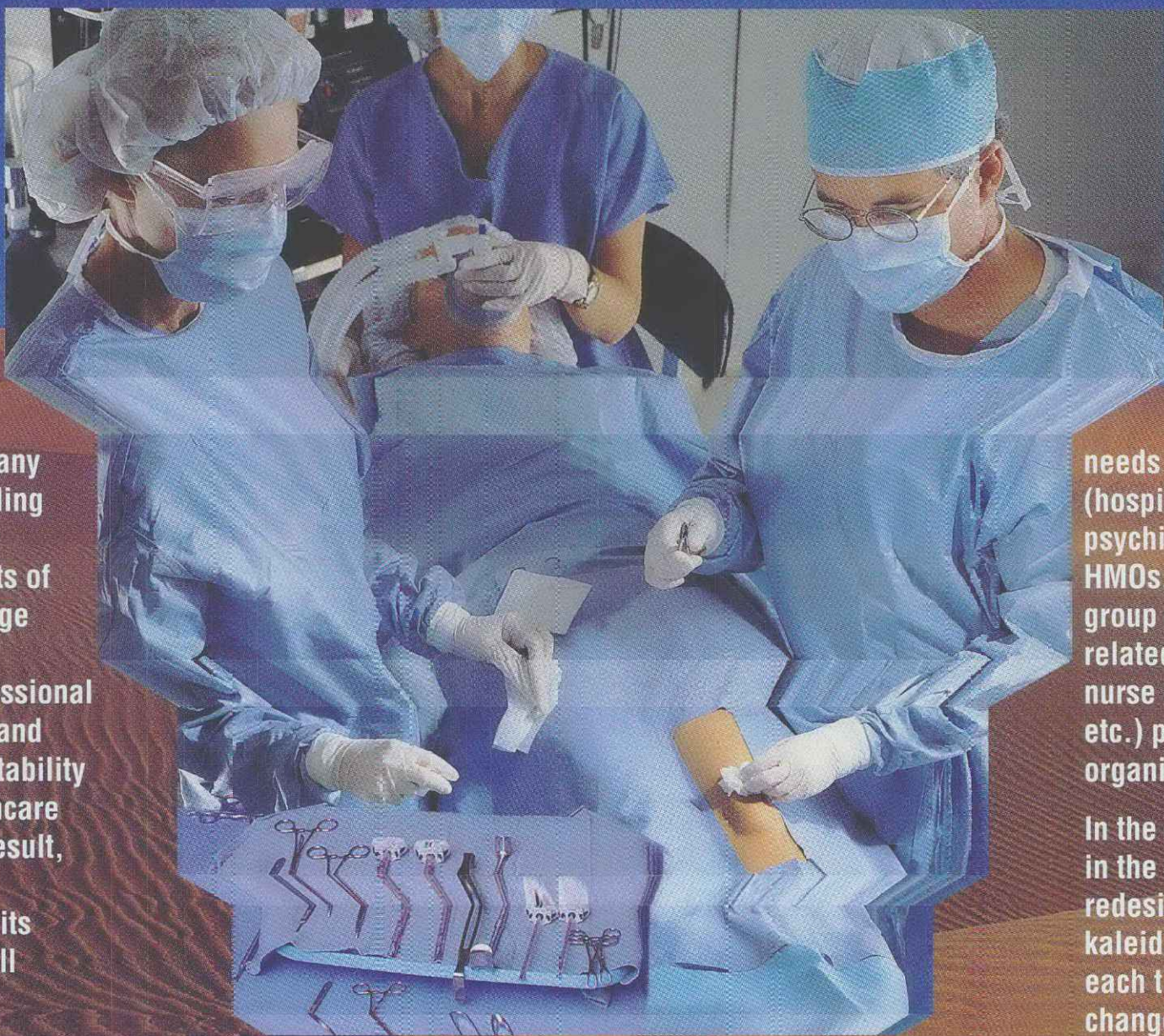
Even though employee contributions for each of the HMOs remained relatively unchanged and indemnity plan contributions increased, the networks with the highest satisfaction ratings experienced the biggest enrollment gains, while those with low ratings lost the most members.

"Our experience bodes well for other employers that have hoped that employees would become better informed and more discerning health care consumers, if armed with the right kind of information," she said.

—By Joanne Wojcik

We'd like to report on changes to your company's employee benefit programs. Contact Robert N. Hazel, Associate Editor, Business Insurance, 740 Rush St., Chicago, Ill., 60611-2590, or call 312-649-5460.

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Opinions

Employers need protection

ONCE AGAIN, an employer's failure to obtain a full picture of a job applicant's references has had fatal consequences.

And once again, a fear of liability is being cited as the reason that type of information is not being exchanged. In short: no one is telling so no one is asking.

This latest situation strengthens our belief that tort reform legislation is sorely needed to shield employers from liability for negative job references, as long as they provide fair and truthful information. Otherwise, silence will surely mean more tragedies that could be avoided.

Last week, the National Transportation Safety Board blamed pilot error for the crash of an American Eagle commuter plane near Raleigh, N.C., in December 1994, that killed 13 passengers, two crew members and injured five (*BI*, Dec. 19, 1994).

The NTSB also said that the pilot was nearly dismissed from his previous job for poor performance, though American Eagle did not ask and was not given that information. That may seem negligent, but the sad truth is it's common industry practice not to disclose such information to minimize liability exposure.

Fear of being sued for defamation or discrimination effectively has gagged most employers from providing extensive information about former employees, let alone a negative recommendation. Because of that exposure, employment liability experts generally advise companies to supply only length of employment and a description of job duties.

But that can have disastrous consequences.

According to *The New York Times*, the NTSB has identified four crashes—including the American Eagle crash—that were caused by a pilot with a poor job history unknown to his current employer. Those other cases were:

- The October 1989 crash of an Aloha Air commuter plane, killing 20 people. Aloha had not contacted previous employers, though some of those employers had given unfavorable reviews to other potential employers that asked, the *Times* said.

- The November 1987 crash of a Continental DC-9 in Denver, which killed 29 people. The copilot had been dismissed by his previous employer for poor performance, the *Times* reported.

- The April 1982 crash of a Scenic Air Tours plane in Maui, killing nine. The pilot had provided a false employment history that was not checked by the airline, according to the *Times*.

In a perverse twist on this same theme, a Florida judge



earlier this year ruled that Allstate Insurance Co. could be sued for punitive damages for failing to disclose to Fireman's Fund Insurance Co. that an ex-employee had been fired for violent behavior (*BI*, Aug. 21). After being fired by Fireman's Fund, the worker returned to the cafeteria and killed three people, injured two others and then killed himself.

While we disagree with the judge's decision, we can understand that he may have been trying to send a message that employers owe a duty to provide such information to other prospective employers when asked. But until employers are shielded from liability for providing such recommendations, their hands are tied and they would continue to be dragged into court.

To avoid continued problems in the aviation industry, the NTSB has suggested several times since 1988 that the Federal Aviation Administration require airlines to share more information on pilots. That would provide employers with a defense that they were complying with federal regulations when providing a negative recommendation.

That would help improve airlines' safety, but would do nothing for the vast majority of employers that are not governed by federal guidelines. What is needed is tort reform legislation at the state or federal level that would protect employers that provide a fair review of an employee's job performance.

Letters

Safe workplaces can exist in today's legal framework

To the editor: Your Oct. 9 article on joint labor/management safety committees, "Clearing Safety Hurdles," rightly points out the difficulty of a legal environment in which non-union employees and employers are barred from cooperating to develop optimal working conditions.

More destructive, however, is allowing legislative battles to overshadow the most important issue: developing a model within existing legal guidelines that makes workplace safety a reality. We've

learned that joining the forces of corporate safety officers and external consultants on a safety committee can produce formidable results.

Consider, for example, companies like Ingersoll-Rand, which has benefited from a team approach to workplace safety. It has been able to move forward and stand above the political debate by quietly creating its own model for safety that best meets its needs.

The company's Environmental, Safety and Health Council includes safety officials from all Ingersoll-Rand operating units and a loss control specialist from CIGNA Property & Casualty. The group tracks measures common to all units and creates a forum for sharing successes and challenges. In turn, each participant brings information and ideas back home, closer to the affected workers, to develop a loss control plan for his or her organization.

Ingersoll-Rand and other companies like it recognize that experienced loss con-

trol specialists can help determine at-risk behaviors and recommend steps to reduce the frequency and severity of accidents, and in turn increase profitability.

We looked at prevention, claims management technology and return-to-work programs. As a result of these efforts, 1993-1994 showed a significant reduction in workers compensation costs over the previous 12-month period. And following the corporate model, divisions within Ingersoll-Rand are developing their own councils with CIGNA's participation.

The focus of workplace safety, therefore, should not be reduced to turf battles and the correct political composition of safety committees. Rather, the imperative is to find the right way to get the best results for everyone.

Andrew Faga
Senior Workers
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Mutual Risk unit buys Bermuda broker

HAMILTON, Bermuda—Park International Ltd., the Bermuda insurance brokerage unit of Mutual Risk Management Ltd., has acquired HJF International Ltd.

Formerly owned by Michael Jenkins and Mike Foulger, HJF operates primarily as an insurance broker to Bermuda companies such as ACE Ltd., and X.L. Insurance Co., and its acquisition expands Park's presence in those markets. Park President Paul Scope described the acquisition as an "attractive opportunity" for both parties.

All four members of HJF's staff joined Park's existing six-person staff, with Messrs. Jenkins and Foulger becoming executive vps of Park.

Park International Ltd. was founded in 1989 by Mr. Scope, who

joined Mutual Risk in 1992.

Terms of the transaction were not disclosed.

IRI membership

HARTFORD, Conn.—Several key members either continued or expanded their participation in International Risk Insurers, a highly protected risk property insurance pool, according to IRI's recently announced 1996 membership.

CNA Insurance Cos., ITT Hartford Group Inc., Fireman's Fund Insurance Co., Hartford Steam Boiler Inspection & Insurance Co. and Zurich-American Insurance Co. are among the key participants in the 1996 membership, effective Dec. 1.

The allocation of authorized shares to member companies for 1996 are: Allianz Insurance Co., 0.25%; American International Group Inc., 1.146%; Lloyd's of London syndicate 138, led by underwriter R.F. Bailey, 1.272%; Lloyd's syndicate 362, led by Harvey Bowring, 3.5%; CNA, 34%; Fireman's Fund, 8.695%; Great American Insurance Co., 0.2%; Hartford Steam Boiler, 14%; Indemnity Insurance Co. of North America, 1%; and ITT Hartford, 14%.

Also, syndicate 205, led by H.G. Jago, 0.2%; syndicate 510, led by R.J. Kiln, 0.636%; Motors Insurance Corp., 0.205%; Munich American Reinsurance Co., 4%; National Indemnity Co., 0.486%; National Reinsurance Corp., 2.5%; Phoenix Assurance Co. of New York, 0.2%; Prudential Reinsurance Co., 1.5%; Sumitomo Marine & Fire Insurance Co. Ltd., 0.3%; Tokio Marine & Fire Insurance Co. Ltd., 0.238%; syndicate 376, led by J.H. Venton, 1.272%; Yasuda Fire & Marine Insurance Co. of America, 0.4%; and Zurich-American, 10%.

CNA's 34% participation in 1996 is up considerably from its 16% share in 1995, while Munich American, National Re and several Lloyd's syndicates all came aboard as new IRI members for 1996.

For more information, call IRI at 203-520-7442.

Comp management

WORCESTER, Mass.—The Worcester Insurance Co. and Lynch, Ryan & Associates have formed a joint venture offering loss management services to Massachusetts employers purchasing workers compensation insurance through Worcester Insurance.

Worcester Insurance and Westboro, Mass.-based workers comp consulting firm Lynch, Ryan will work with employers to help them avoid and control workers comp claims.

The program will also offer various participation incentives to employers, including an immediate 10% credit on the standard modified premium once the employer enrolls.

Employers interested in the Worcester/Lynch, Ryan program should contact their local independent insurance agent.

AIG in Mexican pact

NEW YORK—American International Group Inc. and Grupo Financiero Bital S.A. de C.V. have agreed to a stock purchase under which AIG will increase its ownership of Seguros Interamericana S.A. to 100%, pending Mexican government approval, by purchasing the 51% Interamericana stake now owned by Grupo Bital.

AIG has managed Interamericana, a multiline life and non-life insurer based in Mexico City, since 1992.

Captive administration

NEW YORK—Sedgwick James Inc. has agreed in principle that USA Risk Group will provide administrative services to the U.S. domiciled captive insurance companies of Sedgwick clients, including both single-owner and group captives.

Under the arrangement, Sedgwick Management Services (U.S.) Ltd. will continue as a licensed captive manager with Arlington, Va.-based USA Risk Group providing administrative, accounting and regulatory services.

Vermont and Hawaii employees of Sedgwick will become employees of USA Risk Group. Andrew Sargeant, formerly executive vp of Sedgwick Management Services, has been named vp of Vermont Insurance Management, USA Risk Group's unit in Vermont. Gary Osborne, formerly vp of Sedgwick Management, has been named vp of operations of Hawaii Captive Insurance Management, USA Risk Group's Honolulu-based unit.

Under the agreement, Messrs. Sargeant and Osborne will be gatekeepers for Sedgwick business, supervising and providing services for Sedgwick clients with the support of USA Risk Group resources.

New offices

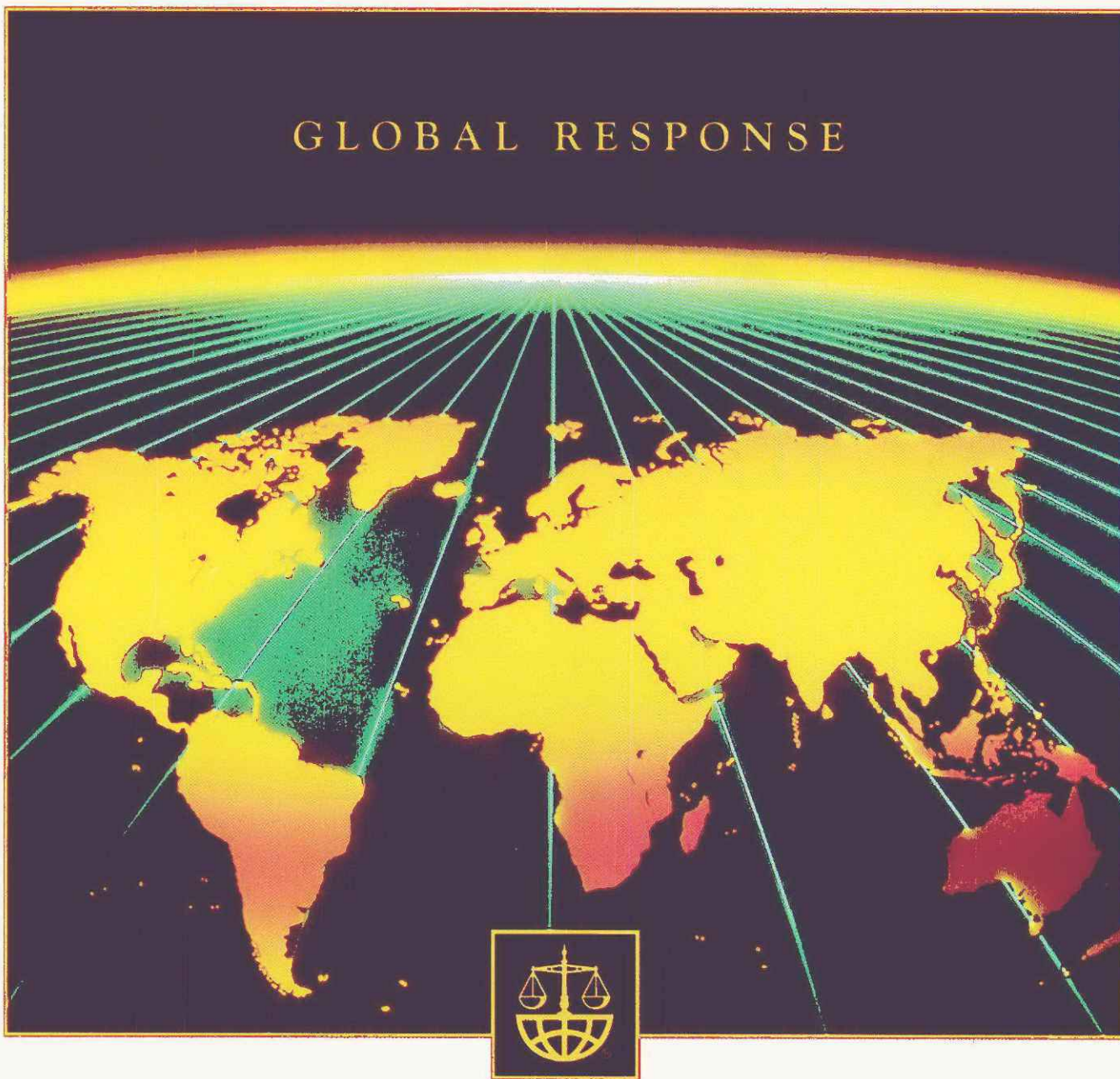
Wholesale insurance broker Worldwide Facilities Inc. has opened a Seattle office at 1111 Third Ave., Suite 2500, Seattle, Wash. 98101; 206-583-8390; fax: 206-583-8391. Edward F. Bukovinsky is vp in the Seattle office.

Fortis Benefits Insurance Co. has opened a London contact office to market its U.S. health maintenance organization and provider excess insurance business in the United Kingdom. The new office is located at Worship Mews—91A Worship St., London EC2A 2BE; 0171-426-0309; fax: 0171-427-0310.

Risk Engineering Inc. has relocated its Houston offices. Those offices are now at 2000 Dairy Ashford, Suite 405, Houston, Texas 77077-5719; 713-558-5000. **[B]**

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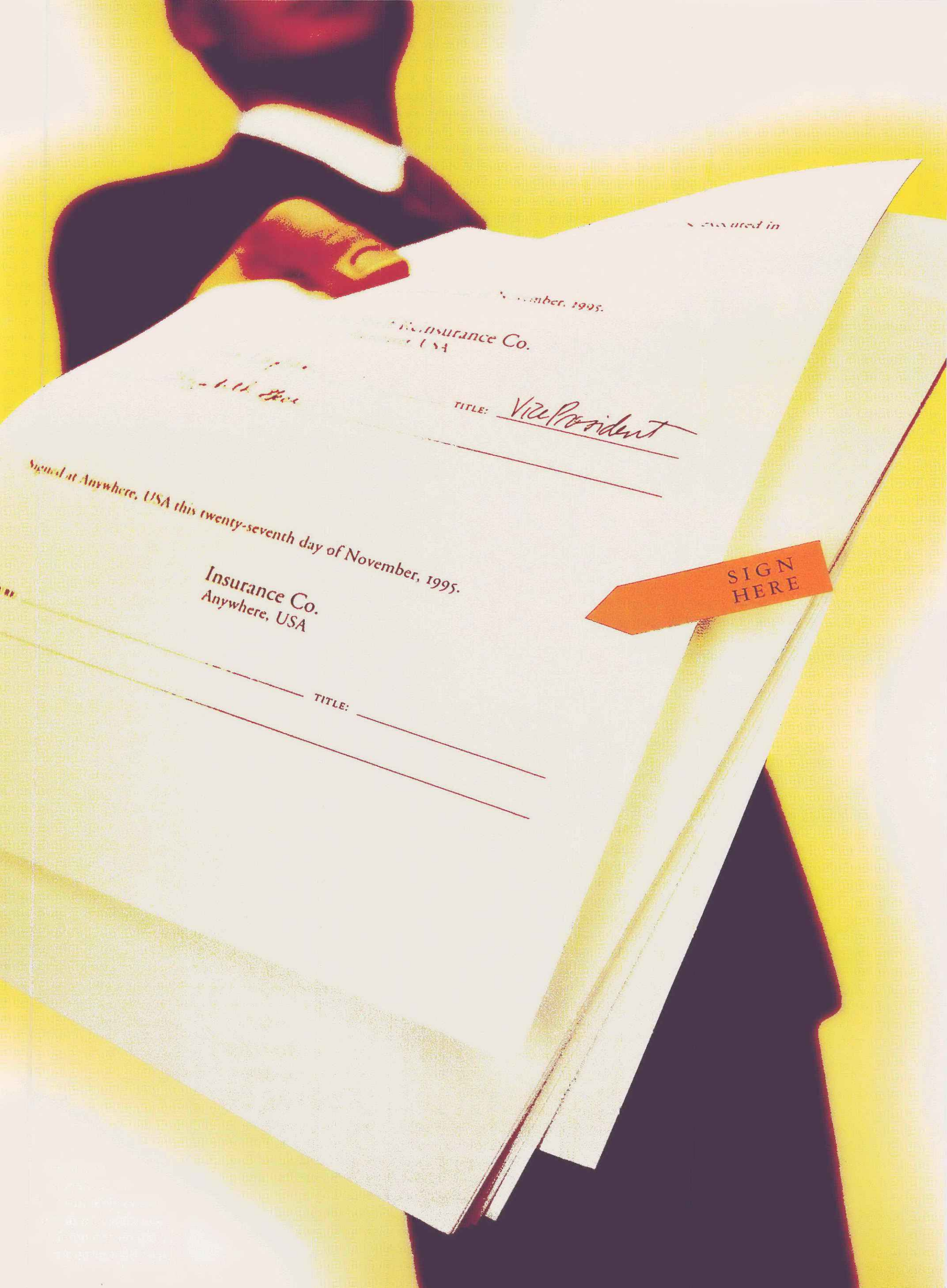
In 1995, *BI* expanded its news coverage of the Risk and Insurance Management Society's annual conference to include televised conference reporting.

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Leave

Continued from page 2

must continue to pay for health care coverage on the same basis as before the employee went on leave.

Benefit consultants say they are not surprised by the survey's finding that the FMLA has had such a limited effect on employers' operations.

"Because leave under the FMLA is unpaid, that has meant that relatively small numbers of employees are taking relatively short amounts of time off. That minimizes the impact," said Karol Rose, a principal with Kwasha Lipton L.L.C. in Fort Lee, N.J.

While the impact of the FMLA on employers' operations has been limited, most employers—two-thirds—said they had to change their benefit and leave policies because of the FMLA. For example, of those employers, nearly 70% said they had to upgrade their leave programs to permit male employees to go on leave to help care for sick or newborn child. Employers also had to overhaul their leave policies because they didn't extend health insur-

ance coverage during leave and because the maximum period of time they provided leave was not as long as that mandated under the FMLA.

Virtually all employers—91.8%—said it has been relatively easy to determine if the FMLA applies to them, as well to determine employee eligibility for benefits.

The biggest FMLA-related problem encountered by employers has been managing intermittent leave—situations where employees take time off in small segments rather than one block. About 40% of employers ranked managing intermittent use of leave as "very difficult" to "somewhat difficult."

In addition, 24% of employers say the additional record-keeping necessary to comply with the FMLA has been very to somewhat difficult.

Those problems notwithstanding, the overwhelming majority of employers say the impact of the FMLA on their operations has been negligible.

For example, more than 90% of employers said the FMLA has had no noticeable effect on profitability, growth, employee productivity or turnover.

In addition, virtually all employers—98.7%—said they did not reduce other benefits to offset any costs associated with the FMLA.

"Many Chicken Littles out there said the law would hurt business productivity and burden employers," said Sen. Chris Dodd, D-Conn., who chaired the commission. "Clearly this report proves just the opposite—the sky is not falling."

Findings in the University of Michigan survey include:

- The average length of leave was 37.2 days, and the median was 10 days.

- When asked why they took leave under the FMLA, 58.8% of employees said it was to take care of their own medical condition; while 18.9% took leave because of the illness of a parent, child or spouse; and 13.7% said they took leave to care for a newborn or adopted child.

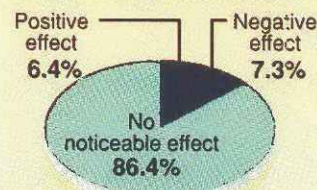
- Among those taking leave, 58% were women and 42% were men.

Free single copies of the surveys are available from Anne Bookman, U.S. Department of Labor, 202-219-6611.

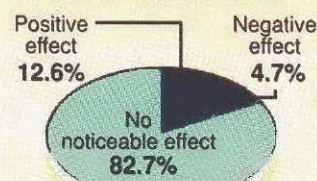
Much ado about nothing?

The Family and Medical Leave Act has had a limited impact on productivity, a study shows.

Business productivity



Employee productivity



Source: The Commission on Leave

GRAPHIC BY MIKE GARVEY

Family benefits aid childless workers, too

By DAVE LENCKUS

PHILADELPHIA—Men and employees of both sexes who do not have small children constitute a large percentage of the CIGNA Corp. workforce that uses the company's work/family benefits, the insurer reports.

More than 41% of male workers at CIGNA have used one or more of the work/family benefits the company offers, compared with 52.5% of female workers, the survey shows.

In fact, only one-fourth of those who use flexible working arrange-

ments, like work-at-home arrangements, flex time and job sharing, cite child care reasons. Almost half use those benefits so they can conduct personal business more easily or reduce commuting time, according to the survey.

"The risk you can run with a work/family benefit program is that it can be seen as a women-with-child-care-needs issue," said Susan Thomas, director of employment policies and programs at Philadelphia-based CIGNA.

But that is not the case at CIGNA.

"What we uncovered is that pro-

grams traditionally aimed at the needs of working mothers are being used across gender, family structure and personal circumstance. The influx of working mothers into the workplace has, we found, led to the creation of programs that meet the needs of employees throughout the workforce," Ms. Thomas said.

And, CIGNA plans to ensure that even more employees understand the advantages that work/family benefits may offer them, which can translate into significant benefits for the company, she said.

For example, work-at-home and

job-sharing benefits could help cut rent costs for employers that are either planning to expand or trying to consolidate multiple sites into a single office.

Ms. Thomas also expects more employers to offer work/family benefits. That underscores the important competitive reasons for keeping employees informed about how they can use these benefits—regardless of their child care needs, she said.

CIGNA's work/family benefits include work-at-home arrangements, flex time, compressed workweeks, child and elder care resource and referral services, dependent care spending accounts, job-share options and onsite and near-site child care centers.

The company's survey was based on answers to questionnaires that CIGNA and the Department of Economics at the University of Massachusetts in Amherst received from 1,514 employees, which represented a 30% response rate. The university's economics department analyzed the results of the survey, which was conducted in August 1994.

Flex time and compressed workweeks, which allow employees to pack their required weekly working hours into fewer days by working longer shifts, are the most popular work/family benefits. More than 26% of CIGNA employees have used flex time, and 9.4% have used compressed workweeks, according to the company's survey.

Among those, 20.8% of male workers used flex time, compared with 28.4% of female workers. And, 8.2% of male workers used compressed workweeks, compared with 9.9% of female workers.

The survey found that men used work-at-home arrangements more often than women—6.2% compared with 5.4%, respectively.

Only a slightly lower percentage of male workers used elder care resource and referral services than did female workers—3% compared with 3.5%, respectively.

Likewise, 5.4% of male workers used dependent care spending accounts, compared with 5.7% of female workers, according to the survey.

The CIGNA survey is not available to the public.



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Solvency

Continued from page 3

The seminar, held last week in New York, drew roughly 100 registrants.

William D. Warren, chairman and chief executive officer of Stamford, Conn.-based National Reinsurance Corp., suggested that statutory accounting statements may require too much disclosure from U.S. insurance companies.

"The convention statement you have today is almost getting to the stage of information overload," Mr. Warren observed, saying that the growing bulk of the statements may make them more difficult to navigate.

"At the end of the day, it may be that the grass is brown on both sides of the fence," Mr. Warren said of domestic and international conditions.

Alan M. Levin, managing director with Standard & Poor's Insurance Rating Services in New York, presented an overview of the international solvency assessment problem.

Reporting practices vary widely, Mr. Levin said, noting

that many countries require annual reporting but require only profit and loss statements and balance sheets, foregoing other financial exhibits routinely used to analyze insurers in the United States.

Even an industrialized country like Japan has weak disclosure rules regarding invested assets, not requiring—for example—reporting of loans that are delinquent less than six months, according to Mr. Levin.

Few countries require quarterly reporting, he added.

Accounting practices in areas like asset valuation also vary and present challenges to insurance security analysts.

While insurers in many countries value assets at cost, actual market value, realizable value or some combination—such as "lower of cost or market value"—various wrinkles in valuation present problems, Mr. Levin noted.

Non-life insurers in many countries, for example, invest relatively heavily in real estate, which is re-valued infrequently.

In France, noted Mr. Levin, the last required revaluation of real

U.S. disclosure rules may go too far in the opposite direction from other nation's laws, says William D. Warren. 'It may be that the grass is brown on both sides.'

estate holdings was in 1979, based on 1976 values.

Solvency regulation has gradually become more standardized, with the European Union, for instance, developing minimum solvency margins for insurers writing in E.U. member nations.

While describing this as a step in the right direction, Mr. Levin also questioned how meaningful the minimum solvency standards really are.

Taking a hypothetical case, he noted that the minimum standards could allow an insurer to write at a premium-to-minimum solvency capital ratio of more than 12 to one, far higher than would be expected of a conservatively run company.

Analyzing loss reserve adequacy

is also tougher for international insurers because of inconsistent reporting, varying accounting standards and inadequate disclosure, according to Mr. Levin.

Depending on the country, for example, an insurer's technical reserves may or may not include incurred-but-not-reported loss and loss adjustment expense reserves. Even if they are included, they may not be based on actuarial estimates, he pointed out.

Insurers in some countries are known for keeping redundant reserves.

However, lax disclosure requirements may allow these insurers to change the practice without notice, leaving policyholders to discover that supposedly conservative companies are

facing serious reserve deficiencies, according to Mr. Levin.

S&P, which rates 4,000 insurers in 65 countries, has found that ratings quality differs significantly from country to country.

In Japan, all insurers are rated in the "secure" categories of BBB or above, Mr. Levin observed.

By contrast, he said, all insurers in Brazil carry a "vulnerable" BB rating.

General Re's Mr. Gustafson warned that it is "dangerous" to rely simply on financial ratios in analyzing an insurer's security, explaining that he would try to understand as much as possible about the company's business, historical performance and other factors in weighing its acceptability.

Vincent Laurenzano, assistant deputy superintendent and chief examiner with the New York Insurance Department, added that while regulators from various countries confer on reporting issues, uniform standards are a distant prospect at best.

"It's probably a goal that's worth striving for, but it's probably not achievable," Mr. Laurenzano said. **BI**

Capital

Continued from page 3

Chase Manhattan Bank N.A. in New York, added that banks could work with commercial insurers to supplement coverage for corporate policyholders.

This might involve a corporate buyer establishing a credit line with the bank for a commitment fee of 25 or 30 basis points—or 0.25% to 0.30%—on the amount of the facility. The buyer could then draw on the facility after a loss and repay the borrowing over a period of several years, he explained.

The cost of such a facility would be comparable to equivalent insurance protection, he said.

Mr. Fernando and the other panelists spoke last week at the 20th Annual Research Seminar sponsored by the Insurance Information Institute and the Reinsurance Assn. of America.

Two of the panelists focused on capital markets' support for property catastrophe facilities that have been set up or proposed in the wake of record-breaking hurricane and earthquake losses of recent years.

Chase, Mr. Fernando noted, is a key player in the Hawaii Hurricane Relief Fund, established in 1993 following the devastation of Hurricane Iniki.

Under the program, insurers write property coverage in the state with an exclusion for hurricane damage. Policyholders may then buy hurricane coverage through their insurers, backed by the fund.

The fund caps insurers' hurricane payouts to the first \$500 million of total losses, with insurer's individual payouts tied to market share, and picks up losses above that level (*BI*, March 14, 1994).

The fund provides a total of \$1.65 billion in protection, with Chase leading a syndicate of lenders providing a stand-by credit facility for the top \$500 million layer, Mr. Fernando said.

The facility required a commitment fee of 35 basis points, and if it is tapped to pay losses, it will convert to a seven-year term loan with interest charged at the London Interbank Offered Rate plus 1.75%, he said.

The loan would be secured by a pledge of surcharges on property

policies. The cost of the credit facility is roughly equivalent to a 15% rate on line for traditional reinsurance protection, he said.

Chase is also participating in another hurricane facility in Florida, Mr. Fernando added.

Meanwhile, the California Insurance Department is in the process of establishing a California Earthquake Authority, which would provide earthquake coverage.

Various layers of the \$11 billion program would be funded by property insurer assessments,

Banks could provide a low-cost alternative to commercial insurance, says Emilio M. Fernando.

committed insurance industry capital, traditional reinsurance protection and capital markets participation, said Thomas V. Chohnoky, a vp with Goldman Sachs & Co.

The CEA would generate roughly \$1 billion in annual premiums for the coverage it provides, he said.

The authority has to meet three conditions before it can be launched, he added. These conditions are:

- 75% of the state's insurers must consent to the formation, a condition that will likely be met, Mr. Chohnoky said.

- The Internal Revenue Service must classify CEA as a tax-exempt entity.

"There's a pretty good chance that that will occur," he said.

- The CEA must find \$2.5 billion in commercial catastrophe reinsurance protection to fill out its proposed program.

As an example of the impact CEA could have on property insurers, Mr. Chohnoky noted that a hypothetical \$10 billion earthquake would produce up to \$1.8 billion in losses for a major insurer in the state but those losses would be cut to \$900 million if the CEA program were in place.

"This would be a tremendous boost to the primary industry with respect to their exposure in California," he noted. **BI**

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INTERNATIONAL

Ongoing change shapes industry

Risk managers should expect emphasis on self-insurance, risk finance

By SARAH GODDARD

BUDAPEST, Hungary—The risk management and insurance professions both are undergoing significant changes that will continue through the decade.

That was the consensus among attendees of the 25th International Insurance and Risk Management Conference, held earlier this month in Budapest and organized by Management Centre Europe. The conference theme, "Revitalizing risk management and stretching the limits of risk finance," underscored this state of flux.

John Parkinson, conference co-chairman and senior vp of Jersey-based International Risk Management Group, questioned whether there is a future for traditional insurers.

Mr. Parkinson noted the movement away from traditional insurance programs to increased reliance on self-insurance and alternative risk financing. The intelligence of this approach becomes increasingly obvious when nine out of 10 policyholders may have a higher financial strength rating than the companies they buy coverage from, he said.

The changes will go deeper than an increase in self-insurance, said Chris Lajtha, the corporate risk manager for Paris-based conglomerate Schlumberger Group and other co-chairman of the conference. "The distinction between banking and insurance products will very likely disappear," he predicted. The future corporate risk manager will speak more in the jargon of the corporate treasury than insurers.

"Beleaguered" non-life insurers are finding that this period in time is radically affecting their operations as well as their clients, a risk management consultant says.

H. Felix Kloman, a former principal of Towers Perrin and now editor and publisher of Lyme, Conn.-based Risk Management Reports, sees the market's new goal as risk balancing. To achieve this, both risk management and insurance need to become more "relevant." For this to happen, they will change radically over the next decade, he said.

In particular, the multi-disciplinary nature of risk management has been compromised by a lack of communication between the "castles" of risk management, according to Mr. Kloman. These castles are: insurance, finance, health and safety, quality assurance, security and public policy. And the situation has been worsened by inadequate measures of the cost of risk, he added.

Mr. Kloman's vision is of a more strategic and holistic future, in which the gaps between the castles will be bridged by more accurate perceptions and definitions of risk, decentralization of risk management and increased communication. Toward that last goal, he warned that those not already on the Internet, are "destined to be left behind."

As risk management changes, so will risk financing. Insurance as an industry is losing credibility, Mr. Kloman said. Considering the situation at Lloyd's of London, litigation in the United States and underinsuring in general—"does the insurance industry really have something to provide?" he asked.

There is also a problem with risk and loss assessment, according to Mr. Kloman. After the Northridge quake, the insurance industry originally estimated insured losses at \$2.5 billion. Now it stands at \$12.5 billion. "How does the finance manager feel when insurers can't get it right after the loss?" he asked.

In addition, a plethora of new liability exposures, such as the risk of injury from electromagnetic fields, may prevent the insurance industry from responding adequately to demands, Mr. Kloman said.

With the overall lack of capacity and increased competition from sources like self-insured customers and financial institutions, Mr. Kloman painted a gloomy picture for the traditional insurance industry.

Consolidation between insurers will be needed to create increased capacity, he said, explaining that this could improve security and reduce costs. Longer-term arrangements with contracts of five to 10 years duration—already being developed—will increasingly be used, Mr. Kloman predicted.

Captives will be capitalized to the tune of \$50 million to \$500 million and will be increasingly run as mutuals; retentions will be higher; and large losses—including one catastrophe representing 150% of annual profit every 10 years—will be built into the financial scenario, he said.

The risk manager's role will become a senior management position, he said. The risk manager of the future will report directly to the chief executive officer and the company board and will have a strategic position, analyzing and addressing all forms of risk within an organization.

Supporting the risk manager will be an environment of "risk sharing," rather than risk transfer. Larger catastrophe programs will comprise several components, with traditional insurance and reinsurance filling a niche within the overall catastrophe protection scenario. But those who are involved with sharing the risk of the company will only be able to do so if they have long-term security and can offer net line capacity greater or equal to that of the organization they are covering, Mr. Kloman said.

And the risk manager of the future will help organizations manage surprises. "Take and create opportunity from risk!" he exhorted the risk managers in the audience.

See Future on page 26

Calm before the storm?

Canadian tranquility may mask possible future turbulence

By GAVIN SOUTER

VANCOUVER, British Columbia—Although most Canadian risk managers now enjoy a relatively tranquil property/casualty insurance market, there are several fault lines beneath that stability that could jolt the market, a broker warns.

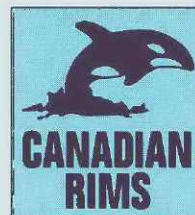
The seemingly plentiful surplus of many insurers in Canada and the United States could be undermined by their inadequate pollution reserves, as well as by catastrophe losses, including earthquakes in British Columbia and tornadoes in other parts of Canada. Growing awareness of the potential impact of these financial disasters is already making risk managers wary of the financial security of some insurers, the broker says.

The flight to quality will make insurers more careful in their own financial strategies, an insurer added.

The market is also changing as a result of companies' use of derivatives and the emergence of rating agencies as major influences on insurers, a reinsurer said.

Most insurers in the Canadian

market are having a profitable 1995, according to John Johnstone, executive vp of Marsh & McLennan Ltd. in Toronto.



That profitability will lead to increases in insurers' surplus, which, in turn, will lead to a continued soft market for

most property and casualty business, Mr. Johnstone said during a panel discussion at the Canadian Risk & Insurance Management Society annual conference held earlier this month in Vancouver.

A conservative rule of thumb for most insurers' premium-to-surplus ratio is \$2 in premium for every \$1 of surplus, he said. However, in 1994, the North American insurance industry average was \$1.30 of premium for every \$1 of surplus, he said.

"And if we get through 1995 without any catastrophes that will come down even more," he said.

As long as that surplus remains so high there will not be a dramatic change in the market, according to Mr. Johnstone.

However, while the insurance market is unlikely to experience the same rate volatility that it did in the 1980s and 1970s, several underlying influences still could disrupt the market, he cautioned.

The first worry for insurers is the inadequacy of their asbestos and pollution reserves, Mr. Johnstone said.

"There is a general acknowledgment that the industry is underresourced," he said.

Several estimates suggest that insurers could be required to pay claims that are many billions of dollars in excess of their reserves, Mr. Johnstone said. "If that happens then the surplus cushion is something of an illusion."

The second possible hitch is a continued increase in catastrophe losses, Mr. Johnstone said.

"Up until 1987, \$1 billion was a big catastrophe year. Now, the average catastrophe year is \$7 billion," he said.

See Market on next page

Olympics suit dismissed

Claim filed too late in 1972 terrorism

MUNICH, Germany—A Munich court has dismissed a suit by 22 family members of 11 Israeli athletes killed in a terrorist attack during the 1972 Olympic Games in Munich.

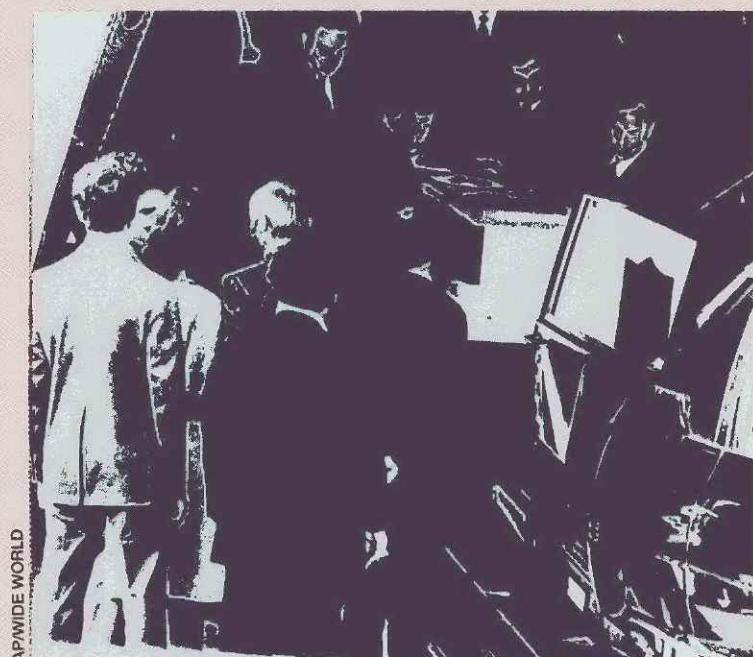
The court concluded that possible claims fell outside the German statute of limitations.

The court also took into consideration that plaintiffs in the case had initially agreed not to press charges after receiving 1 million DM (\$715,600) in compensation in 1973.

A lawyer for the families, Christoph Rueckel, said an appeal to the regional upper court is being considered.

The suit charges that police violated their duty in connection with the attack by eight Palestinian terrorists (BI, Sept. 4).

—By Don Lewis Kirk



A lawsuit filed by families of the 11 Israeli athletes slain at the 1972 Olympic Games has been dismissed by a German court.

Mega-risks a Munich Re specialty

By DON LEWIS KIRK

MUNICH—Munich Re A.G. considers technological projects of colossal dimensions to be calculable risks and a strong market for the future.

The Munich-based reinsurer reported 1.9 billion DM (\$1.3 billion) in premium from so-called technical insurance, with a 30% market share worldwide. Munich Re contends it is the largest reinsurer of technological mega-risks in the world.

Dieter Goebel, a Munich Re executive board member, said at a recent press conference that Munich Re is expanding its business in this area.

The projects that Munich Re reinsures range from Iridium—a world-wide cellular phone communication network supported by 66 satellites that will go into oper-

ation in mid-1998—to new energy technologies, including 50 new nuclear reactors that will be built throughout Asia during the next 10 years.

Perhaps the most costly project is the building of the world's second-largest hanging bridge in Hong Kong, which alone accounts for about half the 15.5 billion DM (\$11.0 billion) Hong Kong airport construction project. Munich Re reinsures a third of the project.

Munich Re's biggest concern with these risks is that the size of claims are increasing, said Heinz Huppmann, a member of Munich Re executive board and director of engineering. "Industrial facilities are being built closer to the coastlines, technology is more complex and expensive and natural catastrophes like earthquakes and hurricanes occur more often," Mr. Huppmann said.

Mr. Goebel said while overall losses due to human error are not increasing, they remain the main danger.

Exact figures on its reinsurance exposures are not available, but Mr. Goebel said Munich Re's total premiums for the year ending June 30 will exceed 29 billion DM (\$20.5 billion).

The largest loss to date from reinsurance of these large projects was the flooding of a construction site at a steel factory in Taiwan last year. Munich Re's net loss was 40% of the policy limits of 140 million DM (\$98.96 million).

Munich Re's technical reinsurance programs were profitable in 1994 and will be again in 1995, Mr. Huppmann said. However, he stressed that risk selection is essential.

Munich Re refused to reinsure See Munich Re on next page

INTERNATIONAL

Market

Continued from previous page

Many areas in the United States, as well as Canada, are subject to earthquake and windstorm losses, said Mr. Johnstone, adding that any substantial increase in catastrophe losses also could dramatically erode insurers' surplus.

Another threat to the competitive market is what could happen to insurers if losses did increase dramatically and diminish their financial security, Mr. Johnstone said.

"Perhaps the biggest threat of all is what happens to the losers among the winners and losers," he said.

Risk managers' worst nightmare is the possibility that their risks are covered by a seemingly secure insurer that later is unable to pay their claims, Mr. Johnstone said.

That anxiety could affect the market before a large loss happens as risk managers seek more secure

"The insurance companies will move out of lines where they can not meet the requirements of risk managers," he predicted.

In addition, to ensure that they are not hit by financial markets, insurers will likely become more conservative in their investment strategies, he said.

Insurers, too, will become more conservative in their own risk transfer, seeking only the more secure reinsurers, predicted Gerald A. Wolfe, a vp at General Reinsurance Corp. in Toronto.

As a result, there will likely be between six and 10 large, well-capitalized reinsurers that will dominate the global market in the future, he said.

The continued demand by risk managers and insurers for high-quality, financially secure coverage will further strengthen rating

agencies' positions as the effective regulators of the insurance industry, Mr. Wolfe observed. "They are the *de facto* regulators of the insurance market."

The concerns of the rating agencies include balance sheet strength, asset liability management, and access to capital markets, Mr. Wolfe said.

Risk managers and insurers will also seek more innovative solutions to catastrophe capacity problems in the future, Mr. Wolfe predicted.

"Catastrophe losses are big issues for Canadians and we expect to see more innovative solutions including derivatives and pre-funding for losses," he said.

The session was moderated by David Barker, director of risk management at B.C. Central Credit Union in Vancouver. **BI**

Munich Re

Continued from previous page
facultative risks for the mammoth traffic project "Berlin 2000," which includes tunnels, track and an underground train station.

"The premiums the broker calculated were too risky," Mr. Goebel said.

The construction project is insured for 4.8 billion DM (\$3.39 billion).

Premiums were set at 0.44% of the total policy limits.

Munich Re thought the premiums should have been twice that, said Detmar Heidenhain, deputy member of executive management in engineering for

the reinsurance company.

Mr. Heidenhain called the project "a highly risky operation under the most difficult conditions."

Much of the work throughout the billion-dollar construction project must be accomplished 56 feet under water.

Similar projects, including a subway tunnel in Munich and at the Heathrow airport in London last year, caused losses of 125 million DM (\$88.4 million). Munich Re's share was 26 million DM (\$18.4 million).

In the Heathrow loss, a subway tunnel collapsed last fall, causing an office building that was used to house project workers to sink and crack badly (BI, Oct. 31, 1994).

The flight to quality also is prompting insurers to change their own strategies, says Mike Jakeman.

insurers, he said.

More risk managers today are seeking to place their coverage with financially strong insurers, agreed Mike Jakeman, vp in the specialty lines division at Royal Insurance Co. in Toronto.

In addition, the risk of a large earthquake in British Columbia has increased the amount of coverage that Canadian risk managers are seeking from the more secure insurers, he said. "The increase in catastrophe coverage bought in Canada is going up in \$100 million and \$150 million increments."

This flight to quality also is prompting insurers to change their own strategies, Mr. Jakeman said.

Canadian meeting

RIMS attendance is largest yet

VANCOUVER, British Columbia—More than 560 people attended the Canadian Risk & Insurance Management Society Inc. conference held in Vancouver, Oct. 15 to 18.

The turnout was the largest yet for the CRIMS conference, according to conference Chairman Keith Gibson, risk manager for the Municipal Insurance Assn. of British Columbia in Vancouver.

The theme of the conference was "Today's Strategies Tomorrow's Rewards."

The conference sessions included a trip to the University of British Columbia Earthquake Centre.

Next year's CRIMS conference will be held Sept. 24 to 27 at the Queen Elizabeth Hotel in Montreal. For more information contact the conference secretary at 514-287-1070; fax: 514-287-1248.

—By Gavin Souter

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INTERNATIONAL

A policy against employee fraud

Ethics code, fidelity insurance can help reduce losses

By GAVIN SOUTER

VANCOUVER, British Columbia—Risk managers should not ask themselves whether employee fraud can occur in their organizations, but rather where, when and how it is occurring, a fidelity insurance company executive says.

Canadian and U.S. companies are already losing billions of dollars each year to employee fraud, he says.

Risk managers should establish plans to minimize losses from employee fraud, including heightening fraud awareness among employees and setting down a code of ethics to be followed by workers at all levels,

he recommends.

"Employee fraud exists because it can often be concealed," said Jean Bertrand, vp and national manager in the corporate risk division of The Guarantee Co. of North America in Montreal.

Estimates of the cost of employee fraud to Canadian companies range from \$2 billion to \$4 billion Canadian (\$1.48 billion to \$2.95 billion). For U.S. companies, those estimates are \$40 billion to \$120 billion, Mr. Bertrand said at the Canadian Risk & Insurance Management Society Inc. conference in Vancouver earlier this month.

Most of those losses are undetected

or uninsured—only \$34 million Canadian (\$25.12 million) was paid out by fidelity insurers in Canada last year, he said.

The most prevalent types of fraud, he said, include check forgeries, inventory theft, information theft and unnecessary purchases.

Perpetrators exploit weaknesses like poor internal controls, management override of controls and collusion with third parties, he said.

And, as technology improves, fraud becomes even easier to perpetrate, Mr. Bertrand said.

For example, relatively inexpensive equipment like photocopiers already can be used to produce count-

erfeit checks, he said.

Companies can take several steps to reduce fraud, Mr. Bertrand said.

First, they should recognize the typical characteristics of a fraud perpetrator. Often they have big egos, a tendency to exaggerate, are dependent on drugs or alcohol, have a desire to live the high life, and they are often materialistic, he said.

Fraud perpetrators also often are hard working, because they have to cover up their fraud as well as fulfill their normal duties; they are reluctant to take vacations or take promotions for fear of somebody taking over their job and spotting their fraud; and often they live beyond the means of their salaries.

Organizations that are susceptible to fraud also often have distinct characteristics, including infighting among top management, low morale

among employees, an understaffed accounting department, inconsistent financial data and numerous adjustments to their books, he said.

To help detect frauds, risk managers should make all employees aware of fraud, he said. Employee reporting of fraudulent activities can be made easier by identifying contacts to whom activities should be reported and setting up toll-free phone lines for tips.

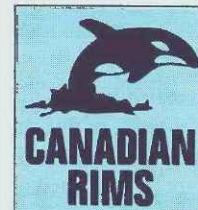
And, to help increase fraud awareness, risk managers should draw up a code of ethics that accurately reflects the culture of their corporation, he said. The code should address issues such as conflicts of interest, giving and acceptance of gifts, and all employees must follow it.

Risk managers also should establish a fraud policy that includes reporting requirements, a commitment to investigate and prosecute fraud, consistent treatment for everyone in the organization and a ban on any cover-ups, he said.

Other controls are easier to implement. For example, cash and securities should only be accessible to people who truly need access.

Jobs should be regularly rotated to prevent people from guarding their frauds, he said.

Once a fraud is discovered, risk managers



should take several steps to mitigate the loss and recover the funds, said Brian Clarkin, corporate risk and surety

claims manager at The Guarantee Co. of North America in North York, Ontario.

"If the fraudster is a current employee, you must act quickly because losses after discovery will not be covered by fidelity insurance," he said.

Also, risk managers should use the opportunity to learn how the employee got around the fraud prevention system, he advised.

To retrieve the stolen money, risk managers first need to discover whether the perpetrator has any assets. Risk managers should also investigate to see whether third parties are involved and whether action can be taken against them to recover the losses, he said.

An employee fraud incident in Edmonton, Alberta, highlighted several weaknesses in the city risk management department's approach to fraud prevention and claims, said its former risk manager, who moderated the session.

While working as a risk manager for the city of Edmonton in 1994, Karen MacWilliam first discovered an incidence of employee fraud shortly before the police made the case public, she said.

The case involved a 41-year-old employee in the city's transit department who defrauded the city of more than \$2 million Canadian (\$1.48 million) over 12 years.

Although the city's fidelity insurer paid the claim, the fraud highlighted several weaknesses within the Edmonton risk management department, said Ms. MacWilliam, who now is a risk management analyst at the Vancouver Port Corp.

Lessons learned include:

- Many organizations' fidelity insurance limits are way too low.
- Fidelity policies should include coverage for quantifying losses and preparing claims.
- After a claim has been paid, risk managers should continue to work with insurers to help prosecute the accused and retrieve stolen funds. Maintaining a good relationship with the insurer is important.

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Royal Insurance

Pollution woes to continue

Exposure will force insurer restructurings, market exits: S&P

By MARK A. HOFMANN

Environmental liability claims will rock the property/casualty insurance industry well into the next century, predicts Standard & Poor's Insurance Rating Services.

As a result of this lingering exposure, some insurers will be forced out of the property/casualty business altogether and others will undergo major restructuring, S&P says in a new study.

The pain of long-tail environmental liabilities will not be shared equally throughout the industry, according to S&P in "Environmental Liability and the Insurance Industry," which is being released today. In fact, the bulk of the \$40 billion in projected environmental losses will be borne by only about 40 to 50 of the industry's 1,100 "significant enterprises"—which include both insurance groups and individual insurers.

The survey was prepared by Alan M. Levin, managing director of S&P's rating service, and Jonathan Godown, an associate director.

When researchers began the study, they expected to find a large pollution claims exposure limited to a few companies, said Mr. Levin. "And, in fact, at the end of the day, there was a large exposure to a relatively few insurance companies."

During the past year alone, four companies—Aetna Life & Casualty Co., CIGNA Corp., Fireman's

Fund Insurance Co., and Swiss Reinsurance America Corp.—have added a collective \$3.7 billion to their environmental liability reserves.

At least another billion dollars will be added to environmental reserves later this year, said Mr. Levin, who would not say which company or companies he expected to increase reserves.

Mr. Godown predicted that the buildup of environmental reserves would continue for the next several years, though possibly not as dramatically as it did during 1995.

The \$40 billion in losses is based on S&P's view that relatively few of the polluted sites that will ultimately be cleaned up have been cleaned up to date. In addition, the number of Superfund sites opened each year will exceed the number of sites closed until the year 2007, S&P projected. The analysts hold that the number of sites on Superfund's National Priorities List, currently about 1,350, represents about one-quarter of the claim sites that will ultimately emerge.

S&P estimates the insurance industry faces a reserve shortfall equal to 13%—or about \$25 billion—of its statutory surplus.

"The development of these losses is expected to reduce the industry's earnings by about 15% over the 30-year payment period. The effects on capitalization for the companies which are most exposed to this issue is, however,

much greater. The apparent reserve shortfall for the most exposed companies equals 34% of their capitalization and should on average hinder their earnings by about 18% over (the next 30 years)," the report said.

S&P analysts estimated the impact of the projected losses on individual insurers through a three-part process:

- First, S&P apportioned the \$40 billion to individual insurers based on their current and historical market share in the lines of business most likely to be affected by environmental liability claims.

S&P modified that apportionment by taking into account the "nature and quality of the business each company has written, and is likely to underwrite in the coming years." Reinsurance and actions taken by individual companies "to discharge their responsibilities in this area" were also taken into account.

- Second, S&P discussed with many insurers and reinsurers the full extent of their reserves held for pollution liabilities. "Many insurers have been reluctant to disclose this information, in the fear that plaintiff's counsel may misconstrue the existence of a financial reserve as a tacit admission of responsibility," S&P's report explained. "Therefore, in some cases, the full reserve for environmental liabilities includes

amounts carried under general incurred-but-not-reported reserves and other such reserves."

- Third, the researchers took into account projected operating earnings over the next 30 years.

"Admittedly, projections over 30 years are subject to significant error," the report said. "Nevertheless, due to the relationship between the current exposure (which is large) and current held reserves (which are modest in comparison), it is clear that many companies will need to 'earn their way out of this problem.'"

S&P rated seven of the 26 most exposed insurers as being in a "strong" position relative to their environmental exposure, with the remainder rated as being in an "adequate" position. None of the companies received a "vulnerable" rating.

Mr. Godown called that a significant finding because several of the insurance companies that the analysts initially had concerns about turned out to be better positioned to deal with the exposures than expected.

Mr. Levin stressed that the relative positions apply only to environmental exposures.

"The strong companies on this list are expected to fare well relative to this risk. While this issue will add to their cost base, it is unlikely to result in a significant deterioration in their financial strength. The adequate companies have either smaller reserves, less earnings power, have not managed the risk as well as their counterparts in the strong category or have a combination of all

three of these factors. These companies will likely incur higher earnings drag as they are forced to reserve for these losses," the report said.

The report added, however, that insurers appear likely to get some relief from Congress as it considers Superfund reform.

But S&P "does not believe that the ultimate solution or eradication of this problem will come from Washington," the report's authors noted. What is more likely to happen is that the 26 companies on the most exposed list will remain exposed to losses, albeit at a lower level.

"In addition, what will likely emerge are: one, a better system for allocating these losses; two, improved and varied remediation standards; and three, legal reform which should lower the litigation component of these costs," the report said.

"If there is some kind of reform, we'll take it as it comes," said Mr. Levin. The fact remains, he said, that "prudently managed financial institutions ought to have reserves for these issues. That's been the fundamental philosophy that's driven our work in this area."

The results of "Environmental Liability and the Insurance Industry" are published in the Oct. 30 edition of S&P's CreditWeek. Single copies are available free from Standard & Poor's Insurance Ratings, Communications Department, 25 Broadway, 22nd Floor, New York, N.Y. 10004; or by calling S&P's Fax on Demand service, 212-208-1942.

Funding

Continued from page 3

the likelihood that an employer leaving a multiemployer plan would be hit with a huge withdrawal liability claim has declined.

"The hysteria (over withdrawal liability) has died down," Mr. Krinsky added.

Terminations of underfunded multiemployer pension plans are so rare that the special Pension Benefit Guaranty Corp. fund to guarantee promised benefits to plan participants has a \$200 million surplus.

By contrast, the PBGC fund that is used to guarantee benefits of participants in defined benefit pension plans maintained by individual employers has a deficit of about \$1.2 billion.

"Multiemployer plans, in general, are a different kettle of fish. They are not one of the" Pension

Benefit Guaranty Corp.'s problems, Mr. Krinsky said.

PBGC Executive Director Martin Slate said earlier this month that the surplus in the PBGC's multiemployer insurance fund is likely to increase and that legislators should consider boosting benefit guarantees to participants in the plans.

"In these circumstances, we should seriously consider increasing the guarantee limits to reflect the success of this program," Mr. Slate said.

Currently, the maximum annual benefit the PBGC will guarantee to multiemployer plan participants is about \$6,000.

By contrast, the maximum annual benefit guarantee in the PBGC's single-employer plan program is about \$31,000.

To determine how well plans are funded, Segal surveyed clients with plans ranging from less than \$5 million in assets to plans with more than \$1 billion in assets.

The multiemployer plans surveyed had combined assets of just over \$75 billion in 1994, up about 1%.

Generally, there was little variation in funding levels by industry. The highest level was in the entertainment industry, where plans, on average, were 98% funded.

The lowest level was in the services industry, where plans, on average, were 94% funded for vested benefits.

There also was no correlation in a plan's age and its funding. For example, the newest plans—those less than 10 years old—on average were 97% funded, the same as much older plans—those launched between 30 and 34 years ago.

Free single copies of the "1995 Survey of the Funded Position of Multiemployer Plans" are available from Mary Feldman, The Segal Co., 1 Park Ave., New York, N.Y. 10016; 212-251-5000.

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Superfund

Continued from page 1

Browner to say that retroactive liability is unfair; more than once she refused.

For its part, Superfund Reform '95 favors eliminating retroactive liability completely.

The Washington group, which lobbies on behalf of insurers, other businesses and local governments, argues that the cleanup revenue lost by such a change could be made up by, for example, borrowing from the Treasury Department, denying reimbursements to potentially responsible parties, or taking other steps.

"Any or all of these funding mechanisms could be used to pay for complete retroactive liability repeal," said Mr. Baker.

But "if Congress chooses to allocate less money than is needed for full repeal, those dollars which are available should be applied in such a way as to eliminate the most liability and litigation for the greatest number of parties. To that end, eliminating liability and lawyers at multiparty sites should be given top priority. Clearly, this would achieve the greatest, fairest liability with a limited amount of funding," he said.

But businesses are not unanimous in supporting watering down Superfund liability.

In a statement to the House subcommittee, Charles H. Bowman, chairman and chief executive officer of B.P. America Inc. of Cleveland, a unit of British

Petroleum Co. P.L.C., said he had serious concerns about removing retroactive liability.

"If the provisions repealing retroactive liability were passed and...not made retroactive, then 'good faith' stakeholders who have stepped forward would be economically punished," Mr. Bowman said.

"Another significant concern is whether enough money is available to fund the full repeal of retroactive liability. BP is skeptical of the argument that there are sufficient cost savings associated with other program changes to adequately fund full repeal of retroactive liability," Mr. Bowman said. "BP steadfastly opposes increasing the tax burden on the petroleum sector to fund full repeal."

The EPA's Ms. Browner made clear that the Clinton administration thinks that both an outright repeal of retroactive liability and Rep. Oxley's proposal for a rebate of some cleanup costs are bad ideas, and she got some support for those positions from Democratic members of the subcommittee.

"I for the life of me don't understand why our committee would be spending American taxpayer dollars" to pay for the rebates, said Rep. Edward Markey, D-Mass. He called it the "Ed McMahon polluters' clearinghouse sweepstakes."

"I'm sure the Mafiosi will appreciate the beneficence of Uncle Sam," mused Rep. John D. Dingell, D-Mich.

Rep. Oxley responded that his bill specifically bans rebates for

illegal dumping activity.

That tone characterized several other exchanges.

At one point, Ms. Browner remarked that if the ill-fated Exxon Valdez had spilled toxic waste rather than crude oil in Prince William Sound, Exxon Corp.'s liability would have been limited to \$50 million under H.R. 2500. She then was testily criticized for using that example by Rep. Billy Tauzin, R-La.

After an often fiery yet inconclusive exchange, Ms. Browner insisted that H.R. 2500's passage would mean that some sites would remain uncleaned.

More diplomatically than some of his colleagues, Rep. Rick White, R-Wash., tried to get Ms. Browner to assess the fairness of retroactive liability.

He asked whether retroactive liability was a fair way to get people to clean up waste sites. When Ms. Browner began talking about congressional intention at the time Superfund was first enacted in 1980, Rep. White told her that a different Congress is examining Superfund now.

When he pressed her on the question again, she replied, "you would like me to say something that I don't agree with." She said it was a "tough question" but that under current circumstances, retroactive liability was probably the "fairest thing."

At the end of Ms. Browner's testimony, Rep. Oxley thanked her and added that he hopes "we can get a product all of us can embrace and hope we can get it this year."

gests that insurers support NAIC efforts on those solvency issues which it handles better than individual states, but should oppose NAIC efforts to monitor market behavior or determine appropriate market behavior.

The report also calls for fiscal accountability over the NAIC, suggesting that "the possibility of a lawsuit over data base and other fees needs to be considered." And it backs the National Conference of Insurance Legislators' push for legislative oversight of the NAIC (BI, Aug. 7).

"Oversight hearings," the NAII said, "can explore the issue of what the NAIC is and what accountability it ought to have and to whom."

The white paper also suggested the NAIC needs to make greater use of insurance industry expertise, and said there should be consideration given to the proper role of department and NAIC staff in the organization's decision-making process.

For their part, NAIC officers have described themselves as "puzzled and disappointed" by the white paper in a letter sent to outgoing NAII Chairman Dale F. Mathwich in September.

Suggesting that the report contained "many errors and mischaracterizations," the NAIC said that the white paper "seeks to reverse a number of valuable reforms that have been instrumental in strengthening insurance regulation and establishing adequate protection of consumers and the general public."

The letter indicated the NAIC wants to maintain a working dialogue with the NAII, however, and to that end representatives of the two organizations met earlier in October, and plan to hold a followup meeting.

Despite the many regulatory concerns facing the industry, Mr. Ramirez suggested the situation is

problems in every state, Mr. Ramirez said.

On the other, it is addressing problems it perceives in the operations of the National Assn. of Insurance Commissioners. The NAII outlined most of what it perceives as problems with the NAIC in a white paper report released earlier this year.

According to "NAIC in Perspective," the commissioners group is "acting more like a regulatory authority than a trade association. The budget and staff of the NAIC have grown significantly. The NAIC is accountable to no public authority. With a traditionally high turnover of insurance regulators, the staff has achieved a key role in policy formation."

"We have concerns about both

Less regulation would benefit consumers through lower costs, new product lines and expanded markets, according to NAII President-elect Jack Ramirez.

their budgets are about four times as large as they were 15 years ago.

Similarly, the number of laws and regulations governing insurance ratemaking and rate filings has grown dramatically, increasing more than fivefold since 1945, according to the NAII study.

Less regulation would benefit consumers, Mr. Ramirez said, through lower costs, new product lines and expanded markets.

Mr. Ramirez said the NAII currently is taking a two-fold approach to regulatory reform.

On the one hand, it is lobbying to remove laws or rules it views as impediments to competition. NAII members and staff have identified such laws and regulations seen as

Better times forecast for '96

But stocks will decline, economist says

By SALLY ROBERTS

CHICAGO—The U.S. economy will rebound next year, resulting in better earnings per share, higher interest rates and increased inflation, an economist predicts.

While this may sound good for U.S. businesses, including the insurance industry, "it's not the best news for the stock market," warned James E. Annable, senior vp and chief economist for the First National Bank of Chicago.

The price/earnings ratio in the stock market—a stock's share price divided by its earnings per share—has a converse relationship with interest rates, he said. Therefore, a booming economy and increasing earnings per share plus rising interest rates will result in a "relatively modest correction," or a drop, in the stock market's activity.

The future holds a "challenge for the equity market, and you need to be prepared for that," Mr. Annable told insurers in a session at the National Assn. of Independent Insurers conference in Chicago last week. He addressed five other economic factors that insurers should be aware of for investing and business planning.

• The economy is rebounding. "The absolute keystone to everything else about the economy is that economic growth, which is slow this year, is going to rebound," he said.

Mr. Annable said he foresees a 3% growth in gross domestic product next year, compared with 2.6% this year.

The economy is rebounding due to several factors, including double-digit rate growth in exported goods, increased investing among companies, increased consumer consumption and a more balanced "inventory cycle," he said. Inventory cycle refers to the ratio of a company's annual sales to its inventory.

And, during presidential election years, per capita "feel-good consumption" historically grows faster

than in non-election years, he said. "Feel-good consumption" refers to total consumer spending, excluding such items as household utilities, medical care services, insurance and private education.

• Inflation will rise again. According to Mr. Annable, the Consumer Price Index will increase to 3.1% in 1996 from 2.9% in 1995.

As a basic rule, inflation increases lag behind rising operational capacity utilization by about one year, he said. The capacity utilization rate—the percentage of total capacity being utilized—in 1995 is slightly higher than in 1994, giving credence to his prediction, he said.

• Profits will continue to rise "robustly."

In 1995, expected average earnings per share among the companies in the Standard & Poor's 500 Index will grow 20% over 1994, Mr. Annable said. He expects earnings to grow at an 11% to 12% rate in 1996.

Profits are growing faster than the overall economy because of increased productivity within organizations, which is one result of the downsizing trend among American businesses, he said. Coupled with bottomed-out wage growth and overall price increases, "this is a recipe for rapid profit growth."

• Interest rates will rise.

If there is good economic growth and inflation, "it's a relatively good bet" interest rates will also rise, Mr. Annable said. While some will debate where interest rates are going, he predicts the federal funds interest rates will hit 7% at the end of 1996. Currently, it is about 5.8%.

• The U.S. savings rate has slowed.

With slowed wage increases and more consumer spending, there is less left over for "financial prudence," he said.

"The savings rate is the most important characteristic of the economy," he added. Net domestic saving as a percentage of GDP was 3.4% in third-quarter 1995 and is estimated to be 3.7% during 1996, Mr. Annable said. "I'm not optimistic that household savings will improve."

Continued slow growth of real wages will continue to hamper the savings rate, he said. **BJ**

far better today than in the fall of 1994. "A year ago this time we were under constant attack."

That "attack" in 1994 included:

• Efforts to repeal the McCarran-Ferguson Act.

• The Clinton Administration's health care reform proposal and its potential impact on workers compensation.

• Superfund reform discussions and the prospect of another regulatory scheme that would be "extremely burdensome for our companies."

• Data reporting bills, which Mr. Ramirez described as ranging from "extremely horrible" to "still terrible."

"It was a very threatening time and we were able to dodge every one of these bullets, some by luck and some by the effort we put into it," Mr. Ramirez said.

The group continues to fight U.S. Department of Housing and Urban Development efforts to apply anti-redlining measures to the sale of homeowners insurance, primarily through support of congressional efforts to cut HUD funding for en-

forcement operations.

"We are trying to mobilize our grassroots to support the House version of the HUD appropriations bill," Mr. Ramirez said.

The 1994 elections and a growing popular sentiment that there is too much government regulation offers the insurance industry "a tremendous opportunity to try to make a change in the regulatory environment," Mr. Ramirez said. But, despite the conservative swing in Congress and state governments, he cautioned that the effort still won't be easy.

"We're not the most popular industry in the country, obviously, and there are a lot of policymakers who do not understand the insurance industry," Mr. Ramirez said. "We've got to keep on electing a receptive audience, people who share the same values and beliefs."

Free copies of "Overreaching Authority: An Analysis of Regulatory Excess" can be obtained from the National Assn. of Independent Insurers, 2600 River Road, Des Plaines, Ill. 60018; 708-297-7800.

How reinsurers can compete

By SALLY ROBERTS

CHICAGO—Growth in the reinsurance market is coming from outside the United States, so reinsurers need to operate globally if they are to grow, a reinsurance executive says.

U.S. companies write a quarter of the estimated \$60 billion to \$80 billion in reinsurance premiums worldwide, second only to German reinsurers with a 36% market share, said James E. Gustafson, chairman and chief executive officer of General Reinsurance Corp. in Stamford, Conn.

Yet annual growth in the U.S. market is only about 8%, he said.

"There is not a lot of growth in the U.S.," Mr. Gustafson said. So to gain market share, reinsurers have to continue to compete for business.

And with looming issues such as natural catastrophes and the future of Lloyd's of London, not to mention increased pressure from buyers for

better capitalized companies, reinsurers need to look to the global marketplace, he said.

In addition, with a large number of U.S. insurers being purchased by foreign companies today, insurers are continually looking at reinsurers on a worldwide basis.



Therefore, "we, too, have to look at it worldwide," Mr. Gustafson said.

During a session at the National Assn. of Independent Insurers conference last week, Mr. Gustafson discussed General Re's global strategy.

Though it first set up international operations in 1960, for the next 30 years only 5% of its total premium volume came from outside the United States, he said.

In 1990, after realizing the com-

pany needed to boost its global presence, it started to put more time and energy into how it was going to compete on a worldwide basis, Mr. Gustafson explained.

General Re began to increase its global business through three tactics: building on its existing international operations; opening new offices; and acquiring international operations.

Through these measures, international business rose to 17% of its total by 1994.

"This was significant growth, yet we knew a possible acquisition would move that percentage to a point where we could become truly global," he said.

In 1994, General Re acquired controlling interest of Cologne Reinsurance Co. (BI, July 4, 1994).

Currently, General Re's international business accounts for 50% of its total premium volume, Mr. Gustafson said.

"We're now in a position to compete actively all over the world." BI

Excessive rules lead to bad choices

By RODD ZOLKOS

CHICAGO—Many of the regulatory problems the insurance industry faces stem from systems in which rules have taken precedence over human decision making, according to a lawyer and author working to reverse that trend.

Speaking last week in Chicago at the annual meeting of the National Assn. of Independent Insurers, Philip K. Howard, founding partner of the Howard, Darby & Levin law firm in New York and author of "The Death of Common Sense: How Law is Suffocating America," suggested that returning more of a human element and sense of accountability to decision making in both government and the private business sector could solve many problems.

Offering his thoughts on insurers' battles with the U.S. Department of Housing and Urban Development over the agency's efforts to enforce anti-redlining measures, Mr. Howard suggested that HUD is less concerned about discriminatory practices in insurers' operations and more concerned about generating political good will. "There is a party that wants to cater to a particular constituency, and it wants you to subsidize them," he said.

But what allows that political issue to manifest itself at HUD is a more fundamental problem Mr.

Howard sees in federal regulation in general. Rule-making agencies are getting between U.S. citizens and the representatives they elected.

"I believe Congress has abdicated its role of responsibility over the agencies in the United States," he said. Congress delegated powers to federal agencies in cases where it



didn't have the expertise to make judgments,

but then failed to maintain any watch over those agencies as they executed those powers, Mr. Howard said. "If the HUD rules don't make sense... don't go to HUD. Congress is the one that's supposed to be making the laws of the land, they're supposed to have oversight. If they don't like it they should say, 'No.'"

Mr. Howard encouraged those attending the meeting to "chip away at the things that don't make sense to you and hopefully get a regulatory reform bill out of Congress that allows Congress to take the responsibility that they're supposed to have."

At present, however, government's growing reliance on rules often makes it difficult to really tell where responsibility rests, he said.

"The problem in America today,

our crisis is not that we're passing too many new rules," he said. "The crisis in America is getting rid of 100 million words of old rules and trying to make sense of them."

A critical element of any solution, he said, would be "a general exemptive authority."

Providing that sort of exemptive authority to judges in any sort of tort reform measure, for example, might make damage award caps easier for many cap critics to swallow, Mr. Howard said.

He advocated a system in which a judge would have the authority to disregard caps in any particular case where he or she found them unfair. "I think that would solve 95% of the problems with caps," he said.

While companies typically aren't as bad as government, many also have fallen into the trap of an over-reliance on rules and become inefficient because employees are unable to make appropriate decisions in cases where the rules don't fit.

"Even if a rule is a very sensible rule, it still won't apply—pick a number—20% of the time," Mr. Howard said. "People need the authority to make exceptions."

While conceding the approach he advocates wouldn't create "a perfect world," Mr. Howard contended it would provide "one that is far better and more human than the one we have." BI

First-rate service a must for insurers

By SALLY ROBERTS

CHICAGO—Policyholders' service expectations today are shaped by such businesses as Nordstrom Inc. and Wal-Mart Stores Inc., which provide "absolutely stellar services," a consultant says.

Insurers must follow in their footsteps by taking away barriers of time, place and effort for the customer, said Robert D. Dewar, a professor at Northwestern University's graduate school of management in Evanston, Ill.

Twenty years ago, banks were open from 10 a.m. until 3 p.m., four days a week, with one office downtown, Mr. Dewar observed. But, with the advent of automated teller machines and telephone response systems, banking now can be done at any time, in thousands of places and much more easily.

More than 25% of insurers' customers switch companies due to poor customer service, he said. In fact, in-

surers lose half of their customers before breaking even on the cost it takes to obtain them.

If insurers increased their retention rates by 5%, profits would increase by more than 10%, Mr. Dewar predicted.

To increase policyholder retention levels, Mr. Dewar suggested that insurance companies make informed, top-level decisions based on the development of a "service scheme" that



best fits customers' needs and effectively makes

time, place and effort non-issues.

Mr. Dewar examined three types of service companies emerging in the workplace during a session at the National Assn. of Independent Insurers conference last week in Chicago.

Examples of such programs are:

- Companies with an "operational excellence" program offer low price and good value that is standardized, reliable and predictable.

Mr. Dewar said companies like Federal Express Corp. and Southwest Airlines Co. are two examples of companies with such service.

- Companies that are customer-focused are ones that personalize their products and services for each customer.

An example is Kraft General Foods Corp., which markets individual products store by store after analyzing consumer research, he said.

- Innovative companies find needs that customers never knew they had.

For example, prior to the invention of the portable cassette player, people went jogging without any music. "Now they can't run without their 'Walkmans,'" he observed.

Mr. Dewar said it is time for insurers to find their own service program when customer turnover rates start increasing. BI

Updates

Drug program charges settled

WHITEHOUSE STATION, N.J.—Merck & Co. will pay nearly \$2 million to avoid a lawsuit by 17 states over a prescription benefit management program run by its Medco Containment Services Inc. unit.

The Whitehouse Station, N.J.-based drug company and state attorneys general agreed to the settlement last week.

State investigators alleged that Medco druggists tried to persuade doctors to switch their prescriptions to Merck products without telling doctors that they worked for Merck. Merck acquired Medco in November 1993, and since then the prescription benefit manager has been accused of aggressively touting Merck drugs to doctors.

Under the settlement, Medco pharmacists, when calling doctors, will identify themselves as associated with Medco and, where appropriate, indicate Merck is the maker of the drug being recommended. If Merck pharmacists claim to doctors that its drugs are no more expensive than a competing brand, the settlement requires such claims to be honored.

Medco also is distributing information to patients and doctors telling them that prescription-switching does occur. And Medco is notifying consumers that their personal health histories and drug information may be released to employers that use Medco.

Neither Merck nor its subsidiary admitted any wrongdoing as part of the settlement. The companies say that only 33 Merck drug products out of 800 are in the Medco formulary and that consumers have saved money on drugs through the program.

The \$2 million will be distributed equally to the 17 states, providing \$115,000 to each state for legal expenses.

U.K. policyholder law changes

LONDON—North American professionals would no longer be covered by a U.K. guaranty fund if their U.K. liability insurers become insolvent, under proposed amendments to the United Kingdom's Policyholder Protection Act.

The amendments, announced last week in the House of Commons by Ian Lang, president of the Board of Trade, would restrict the act's geographic scope only to "insurance policies covering European Economic Area risks and commitments underwritten by U.K. authorized companies; and U.K. risks and commitments underwritten by U.K. located branches of E.E.A. companies."

The amendments also would exclude coverage for partnerships, except for compulsory coverage like employers liability insurance.

But, none of the changes would be retroactive, so North American policyholders would be covered until passage of the legislation, which will be introduced in Parliament when "time permits," Mr. Lang said.

British insurers have been seeking these changes to the act since a 1993 House of Lords decision that required the Policyholder Protection Board-administered fund to pay 90% of the professional liability losses of North American doctors, lawyers, accountants and other individual professionals insured by the now-defunct H.S. Weavers (Underwriting) Agencies Ltd. (BI, Nov. 29, 1993).

Between March 1992 and March this year, the PPB collected about £300 million (\$471.9 million) from U.K. insurers through a tax under the act to cover mainly the Weavers' losses being paid by the five defunct KWELM companies, said Derek Wright, secretary to the board.

The board could be liable for as much as \$1 billion of the KWELM losses, he confirmed.

Empire to set up subsidiary

NEW YORK—Empire Blue Cross & Blue Shield plans early next year to establish a for-profit managed care unit.

If state insurance regulators approve, Family Health Choice would take on the Empire Blues' existing 425,000 managed care members and seek out new members throughout the state, a spokesman said.

"Managed care is obviously an area that we think is going to grow, and we think this will be a better way to service that area," he said.

Empire's Blue Choice product covers large and small groups.

Briefly noted

OIL Insurance Ltd. shareholders have approved coverage changes that include raising occurrence limits to \$225 million from \$200 million and aggregate limits to \$562.5 million from \$500 million (BI, Sept. 25). . . John Lauer, the **Chicago Housing Authority's** former risk and benefits manager, pleaded guilty Oct. 25 to charges stemming from investment scams that cost the agency nearly \$20 million. He also admitted using his position to gain commissions on insurance policies he advised the CHA to buy. He is expected to testify at the January trial of seven others indicted in connection with the scams. He also will repay the CHA \$4.9 million and interest to settle civil charges filed by the SEC (BI, June 27, 1994). . . Englewood, Colo.-based **Guaranty National Corp.** will take a \$14 million charge to third-quarter earnings to shore up reserves for its commercial and personal auto liability business. . . The U.K. High Court last week upheld the "pay now, sue later" clause in Lloyd's of London agency agreements. The decision, made in a test case brought by managing agency Marchant & Eliot Underwriting Ltd. against a Lloyd's member, opens the door for the collection of millions of pounds of overdue payments. Lloyd's says it will issue about 350 writs against members at the end of the month. . . A progress report due from **Lloyd's of London** this week will give more details on proposed runoff reinsurer Equitas Ltd., such as how members' interests will be represented. But, specific figures on Equitas' reserving requirements will not be included. . . **Maine 200**, an OSHA program to encourage employers to identify and eliminate workplace hazards (BI, Oct. 9), is one of the winners of the annual Innovations in American Government Award given by the Ford Foundation and the John F. Kennedy School of Government at Harvard University. . . Dennis A. Smith, president and COO of **Crawford & Co.** of Atlanta, will succeed Chairman and CEO Forrest L. Minix, who will retire at year end.

LTC

Continued from page 2

ing account debit or by mail. The coverage becomes effective Nov. 1, and already 9,300 Hewlett-Packard employees have applied to participate.

Hewlett-Packard decided to self-insure to avoid premium taxes, to qualify for ERISA pre-emption and to have control over the assets and the return on assets in the trust fund. "It was more of a control issue," said Art Young, the company's benefit manager.

Hewlett Packard has purchased from Duncanson & Holt, a unit of UNUM Life Insurance Co., reinsurance excess of a self-insured retention, but Mr. Young declined to provide the attachment point.

Duncanson & Holt also performed risk analysis to determine the premiums charged participants and providing underwriting services. Not all employees will be accepted for coverage.

'The vast majority of people do not have the financial resources to bear these high costs for long,' says Samuel X. Kaplan.

The Hewlett-Packard program is the second self-insured LTC program developed this year by U.S. Care, a Santa Monica, Calif.-based benefit plan administrator. The firm also created and co-administers an LTC program for the California Public Employee Retirement System, or CalPERS, which is the nation's largest public pension fund.

So far, 35,000 CalPERS members have applied to participate in the LTC program, and more than 180,000 have inquired about its benefits.

Self-funding LTC benefits is expected to cost participants in both Hewlett-Packard and CalPERS programs much less than insured plans would, according to Samuel X. Kaplan, president of U.S. Care.

"The self-funding feature of the programs enables us to keep costs down and offer a

wide range of benefits and services," he said.

But, under the CalPERS plan, a typical 40-year-old employee pays about \$240 per year, or a total of \$7,200 over 30 years, for lifetime coverage. The plan provides benefits of up to \$120 per day for nursing home care or \$1,800 a month for home care, which would cover average costs.

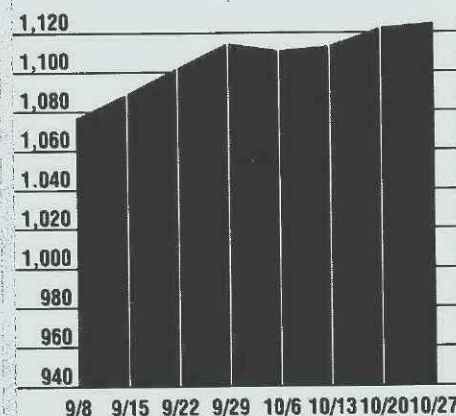
The cost of nursing home care in some metropolitan areas averages \$43,000 per year, and in-home care can cost \$20,000 a

year or more, according to Mr. Kaplan.

"The vast majority of people do not have the financial resources to bear these high costs for long," he observed.

Also under its service contracts with Hewlett-Packard and CalPERS, U.S. Care provides LTC plan participants with specially trained "care advisers" to help them identify and select the appropriate care to meet their needs. Care advisers typically are geriatric nurses and social workers, Mr. Kaplan explained.

BI Insurance Index



Base=100 on Dec. 29, 1978.
Source: Nordby International Inc.

Pilot error blamed in crash

By DAVE LENCKUS

WASHINGTON—Federal investigators blame a pilot with a spotty performance record at two airlines for the 1994 crash of an American Eagle commuter airplane and plan to renew their efforts to require airlines to share pilots' competency records.

Investigators concluded American Eagle contributed to the crash because it failed to investigate and keep apprised of the pilot's performance and training deficiencies. They noted that American Eagle did not even ask the pilot's former employer, Comair Holdings Inc., about his competency and that Comair, as is industry practice, would not have shared information that contained questions about the pilot's proficiency. Airlines long have refused to share such information because they fear liability for violating employees' privacy rights.

Fifteen passengers and crew were killed and five passengers were injured when an American Eagle twin-engine turboprop crashed near Raleigh, N.C., on Dec. 13, 1994 (BI, Dec. 19, 1994). Underwriters originally established a \$42 million reserve for the crash, according to a source.

The National Transportation Safety Board last week said the pilot reacted inappropriately to an engine ignition light that momentarily illuminated during a landing approach after a routine pilot procedure that involves increasing engine propeller speeds without powering up the engines. The pilot assumed the airplane's left engine had failed and did not even attempt to throttle up the engine to check, said the NTSB's Richard G. Rodriguez, chief investigator of this crash. The engine would have responded because there was no

failure, Mr. Rodriguez said. He noted that the brief ignition light is not unusual in that aircraft, the Jetstream 3200, during that procedure.

The pilot also did not take the appropriate measures to fly the plane on a single engine, Mr. Rodriguez said.

As a result of the pilot's inaction, the airplane stalled and crashed, according to the NTSB.

If American Eagle had checked into the pilot's background and Comair had co-operated, American Eagle would have seen Comair once had planned to terminate the pilot. That information would not necessarily mean the pilot was incompetent, but it would have shown he needed more training, Mr. Rodriguez said.

The NTSB stopped short of recommending that the Federal Aviation Administration require airlines to share pilot competency information, but an NTSB spokesman said the agency likely will recommend that within the next 10 days.

The FAA has rejected three similar NTSB recommendations since 1988, citing privacy and liability issues. But the FAA directs airlines to other sources for that information, a spokesman said.

Spokesmen for Air Transport Assn., an industry group, and the Air Line Pilots Assn., which represents 44,000 commercial pilots, not including American Eagle pilots, also noted the pilot involved in the crash had been with American Eagle nearly four years. Therefore, his record with Comair has little bearing, they said.

In response, the NTSB's Mr. Rodriguez said a supervisor should be able to assess a pilot's entire background.

PCS catastrophe options

As of Oct. 13		Call spread		Price bid/ask	
Eastern September 1996		Call spread		Price bid/ask	
40/60	5.4/7	40/60	2/4.5	161	151
80/100	2.5/4	80/100	1.6/2.6	355	354
50/70	4/—	100/120	—/3	390	383
Southeast Dec. 1995		Eastern Dec. 1995			
20/40	2.5/—	50/70	0.4/1		

Total volume: 10 Total open interest: 242

For quotes, call the CBOT trading floor at 312-341-3342. For information on PCS cat options, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

Oct. 26	Price	P/E	Div.	Yield	1 week
Companies	pence		pence	%	high—low
Comml Union	604	12.1	33.0	5.5	622—600
Genl Accident	639	9.4	36.3	5.7	647—639
Gdn Royal Exch	229	N/M	10.3	4.5	233—227
Independent	355	9.9	11.9	3.4	355—354
Royal	383	7.3	15.0	3.9	390—383
Sun Alliance	377	12.7	19.7	5.2	382—377
Brokers					
Bradstock	66	7.4	7.1	10.8	66—62
Fenchurch	131	9.2	10.0	7.6	131—129
CE Heath	159	10.0	20.0	12.6	161—151
JIB Group	120	10.4	9.4	7.8	120—117
Lloyd Thompson	141	8.7	11.3	8.0	146—141
Lowndes Hmbrt	143	8.0	10.3	7.2	144—143
Nelson Hurst	164	12.7	8.3	5.1	164—164
Sedgwick Grp	106	9.6	8.1	7.4	106—105
Steel Bri Jones	36	4.2	11.3	N/M	37—36
Willis Corroon	128	N/M	8.3	6.5	128—126

Source: Philip Olsen, London

BI Industry Stock Report OCT. 23, 1995, THROUGH OCT. 27, 1995

BROKERS													Price	Weekly % change	Year to date % change	Annual		High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
Acordia Inc.	NYS	26.625	1.43	-20.52	34.50	23.50	35	0.72	2.70	14	14.00	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1

Only one company on earth has this many ways to help you manage your risks.

- ☐ All forms of property/casualty insurance through brokers
- ☐ Life, accident & health insurance worldwide
- ☐ Claims management and cost containment services
- ☐ Global employee benefits
- ☐ Global pension management
- ☐ Loss control and engineering
- ☐ Premium financing
- ☐ Political risk coverage and trade financing
- ☐ Emergency evacuation and security services
- ☐ Economic and political assessment
- ☐ Local currency financing
- ☐ Consumer finance in many countries
- ☐ Direct equity investment funds in many countries
- ☐ Third party asset management
- ☐ Infrastructure finance in Asia and Central Asia
- ☐ Market making in all forms of interest rates, currency and equity risk management products
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